

# INTERIM FINANCIAL REPORT

FOR THE SIX MONTHS ENDED 30 NOVEMBER 2018

## OUR VISION

### To be the leading oral healthcare provider in Australasia.

Abano is now solely focused on the \$11-billion trans-Tasman dental market, with the goal to be the leading oral healthcare provider in Australasia.

Abano operates through two dental brands – Lumino The Dentists in New Zealand and Maven Dental Group in Australia – and is the owner and operator of the largest number of dental practices in the region.

The company currently has over 235 practices and more than 2,300 people delivering quality dental care through more than 1.2 million patient visits every year.

*Abano's investment in 'dental robotics' such as CAD-CAM milling units, is providing benefits for both patients and dentists.*

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## UPCOMING KEY DATES

Interim Dividend Record Date: **11 February 2019**

Confirmation of issue price for shares under the DRP, to be issued at a 3.0% discount to 5-day VWAP post-record date: **19 February 2019**

Interim Dividend Payment Date and issue of shares under the DRP: **22 February 2019**

End of financial year: **31 May 2019**

## HY19 HIGHLIGHTS AND KEY EVENTS

- Investment in IT and growth initiatives delivering early benefits
- Completed rollout of customised dashboards to measure and report on individual dentist and practice performance
- Commenced rollout of Lumino Dental Plan in New Zealand in October 2018 and created a proprietary software platform for scalability
- Acquisition of 14 practices expected to generate \$26.1m in annualised gross revenue
- Opening of flagship Lumino dental practice in Auckland's CBD
- Consistently high Net Promoter Scores, with monthly scores increasing to between 70 and 75 for Lumino and inaugural six month average score for Maven of 88
- Establishment of trans-Tasman leadership team and appointment of new Group Chief Operating Officer and General Manager Marketing, both based in Sydney, Australia
- Increased banking facilities in October 2018
- Appointment of Pip Dunphy as the new Chair and Murray Boyte as Deputy Chair
- Declared interim dividend of 16 cents per share partially imputed; Dividend Reinvestment Plan will be operational for HY19 interim dividend

## HY19 FINANCIAL PERFORMANCE

\$millions NZD <sup>1</sup>	HY19	HY18 Excluding Radiology <sup>2</sup>	Variance	HY18 Actual Including Radiology	Variance
Gross Revenue	173.0	149.5	16%	158.7	9%
Revenue	142.4	124.0	15%	133.2	7%
EBITDA	17.7	15.8	12%	17.9	-1%
Underlying EBITDA	18.6	16.1	15%	18.3	2%
NPAT	6.0	5.8	3%	6.0	0%
Underlying NPAT	7.1	6.3	13%	6.7	6%

### Unaudited results for the six months ending 30 November 2018 (HY19)

Abano Healthcare Group Limited delivered a year on year uplift in results for the six months to 30 November 2018, driven by dental practice acquisitions as investment continues into business infrastructure and growth initiatives.

Gross revenue was \$173.0m, EBITDA was \$17.7m and Net Profit After Tax (NPAT) was \$6.0m.

Abano also reports on underlying earnings<sup>3</sup> which provide the basis of Abano's dividend policy. The Company's Underlying EBITDA was \$18.6m, with Underlying NPAT of \$7.1m. On a like for like basis, excluding the prior year contributions from the radiology business which was sold in February 2018, Underlying NPAT was up 13%.

Acquisition growth continued with 14 dental practices acquired for an acquisition consideration of \$31.6m, up 71% on the prior first half year (HY18: \$18.4m). This amount includes deferred acquisition consideration of \$2.2m, which is the earnout component, based on a projection of outperformance against acquisition expectations, and is accrued in the balance sheet. Acquisition and transaction costs increased to \$0.9m.

<sup>1</sup> All dollar values are in New Zealand dollars unless otherwise stated.

<sup>2</sup> Abano sold Ascot Radiology in February 2018, completing its transition to a sole focus dental company.

<sup>3</sup> Abano reports on several non-GAAP measures including gross revenue, EBITDA and underlying earnings. See glossary on page 13 for more details.

Fifty percent of acquisitions were settled in the last two months of the half year period and therefore only \$1.5m of acquired EBITDA was recognised in HY19. The total dental underlying EBITDA margin of 12.1% was in line with the previous first half year.

The investment into growth initiatives over the last two years, including a significant investment in IT (the move of the support offices into the cloud, the data warehouse and customised dashboards), the development and rollout of the Lumino Dental Plan and building of a software platform to enable its scalability, the Rangiora greenfield practice opened in September 2017 and the Lumino CBD relocation, has led to an increase in depreciation expense. HY19 capital expenditure excluding acquisitions was up 8.5% to \$9.6m.

Net bank debt rose to approximately \$130m, primarily due to acquisitions. Bank facilities were extended to approximately \$193m (NZ\$49m, A\$137m) in October 2018, to enable continuing growth and investment into the business. Interest expenses are expected to be higher in FY19 due to increased borrowing for acquisitions and capital expenditure.

The Board declared a dividend of 16 cents per share, consistent with the prior year. The Dividend Reinvestment Plan will again be provided to allow shareholders the opportunity to reinvest their dividend.

## HALF YEAR REVIEW

**Abano is now solely focused on the trans-Tasman dental sector and, with 237 dental practices at 30 November 2018 and growing, is the owner and operator of the largest dental group in the region.**

Our goal is to build dental networks of scale in Australia and New Zealand, which lead the way in quality clinical and patient care, provide a rewarding work environment and generate an appropriate return on investment.

Our strategy is two-fold: To expand our networks through the acquisition of dental practices and to enhance the performance of existing practices, with a focus on increasing the return on invested capital.



## NETWORK GROWTH

In the first half of the financial year, we acquired 14 dental practices for an acquisition consideration of \$31.6m.

The majority of our acquisitions were larger practices in Australia and included two very large Australian dental practices with a combined consideration of approximately \$13m. Australian practices are larger than New Zealand practices on average and, in certain states, also incur non-deductible stamp duty.

In total, the acquisitions made in the first half of the year are expected to provide \$26.1m in annualised gross revenue and \$6.2m in annualised EBITDA, excluding any incremental support office costs associated with these acquisitions. The full annualised benefits will be recognised in FY20.

## INVESTMENT INTO GROWTH INITIATIVES

As well as acquisition growth, we continue to invest into business infrastructure, IT and people to lift business capability and support the growing size of our trans-Tasman group; as well as growth initiatives to drive patient visits and improve same practice performance.

While the cost of these investments is being incurred now, pleasingly, early benefits are already being seen with the full benefits to be realised over the longer term.

Growth initiatives include:

- In New Zealand, the launch of a new TV advertising campaign in September 2018, which led to a significant increase in new and existing patient visits in October and November and helped achieve the highest-ever recorded levels of utilisation across the Lumino group;
- The start of the rollout of the Lumino Dental Plan (a proprietary, subscription-based annual dental treatment package) across the Lumino network following a successful pilot; and
- The relocation of the flagship Lumino Central practice in Auckland's CBD resulting in a year on year 20% increase in revenue for the six months and utilisation for that practice.
- In Australia, the increasing number of branded practices is allowing for more effective branded marketing campaigns, including "No Gap" and interest free offers.

- The data warehouse is enabling advanced analytics and has allowed for customised online dashboards for each practice, which are updated in real time and provide benchmarking and measurement of individual dentist and practice performance. This is resulting in better clinical and operational management and is helping identify opportunities to lift same store performance.

## NETWORK PERFORMANCE

### LUMINO THE DENTISTS

Gross revenue: \$76.3m

Underlying EBITDA: \$9.5m

Lumino is benefitting from initiatives to drive patient visits, including the new marketing campaign and the relocation of the Lumino CBD practice. Gross revenue was \$76.3m, with same practice revenue increasing by 1.6% for the half year period (HY18: 1.7%).

As at 30 November 2018, Lumino had 121 practices, with three practices acquired in the first half year expected to generate approximately \$3.4m in annualised gross revenue.

EBITDA was affected by a number of one-off and other costs, particularly higher laboratory costs due to the rise of Invisalign orthodontic services; production costs of the TV campaign; costs associated with the replacement of several retiring members of the Lumino senior management team; and the relocation of the Lumino CBD practice.

Lumino's EBITDA margin reflects the step up in investment into business infrastructure and growth initiatives. After seven years of continuous improvement from 8.2% in FY11 to 13.9% in FY18, Lumino's underlying EBITDA margin<sup>4</sup> reduced to 12.4% in HY19 but is expected to return to previous levels over time.

<sup>4</sup> Underlying EBITDA margin for Lumino and Maven excludes any corporate allocation

**MAVEN DENTAL GROUP**

Gross revenue: \$96.7m

Underlying EBITDA: \$11.4m

Revenue and earnings growth for Maven is being driven by continuing acquisition growth, with 11 practices acquired in the first half year expected to generate approximately A\$20.9m in annualised gross revenue. As at 30 November 2018, Maven had 116 practices across Australia.

Maven has been impacted by challenging economic conditions, with declining consumer sentiment and slowing economic growth in Australia. Monthly same practice gross revenue for Maven remains variable and was -1.2% for the six months to the end of November 2018 (HY18: -1.6%).

Maven's margin is showing improvement as scale advantages and investment into infrastructure and branding delivers results. Careful cost management and benefits of scale led to a positive lift in HY19, from 11.1% at the end of FY18 to 11.8% for HY19.

**OUTLOOK**

Our strategy remains to grow through acquisition as well as improving utilisation of existing practices. The focus is on increasing profitability and lifting the return on invested capital and our investment strategy will take into account individual market opportunities and dynamics to ensure the best return for our shareholders.

In Australia, the focus is on lifting business performance by driving new and existing patient visits and increasing utilisation, as well as ensuring the right people and infrastructure are in place, such as the recent appointment of a Group Chief Operating Officer and Group General Manager Marketing, both based in Sydney. Going forward, acquisitions in Australia will take into account the more challenging environment, given the increased risks associated with potential changes in the private health insurance market and the slowing economy.

In New Zealand, the focus is on realising the benefits of recent investments and initiatives, as well as improving efficiencies at practice level. There is still capacity to grow the Lumino network, both organically and through selective acquisitions based on current network locations and opportunities.

We continue to see significant potential in the trans-Tasman dental market. Abano is one of the largest providers in the sector, with a focus on operational and clinical excellence, a great patient experience and helping our people realise their potential. We are focused on lifting the underlying performance of our businesses and delivering improved returns for our shareholders.



**Pip Dunphy**  
Chair



**Richard Keys**  
Chief Executive Officer





## GLOSSARY

**Revenue** includes patient fees for dental services rendered by dentists contracted by the Group as well as fees charged to dentists to whom Abano provides facilities and services under Facilities and Services Agreements.

**Gross revenue** represents the fees paid by all dental patients regardless of whether the services are provided by dentists contracted directly by the Group or by dentists to whom we provide Facilities and Services. Gross revenue is reported within the segment note in the Financial Statements.

**Same Practice Gross Revenue** Compares the performance of practices which were owned by Abano and provided a full period contribution in the prior comparative period.

**Earnings Before Interest, Tax, Depreciation and Amortisation ("EBITDA")** is reported within the segment note in the Financial Statements and is Net Profit After Tax ("NPAT") excluding GAAP net finance expenses, fair value adjustments, realised foreign exchange gains/losses, asset impairments, gains/losses arising on sale of businesses, non-controlling interests, tax, depreciation and amortisation costs.

**Underlying earnings** are reported for both NPAT (a GAAP compliant measure) and EBITDA (a non-GAAP financial measure) and exclude gains/losses arising on sale of businesses, IFRS adjustments and impairments, including their tax effect. This also excludes acquisition costs, including stamp duty. These are the measures used within the Company to evaluate performance, establish strategic goals and to allocate resources. They also provide the basis of Abano's dividend policy.

**Underlying EBITDA** includes support office costs. It excludes depreciation and amortisation, interest, tax and acquisition and transaction costs.

**Underlying EBTIDA margin** is practice margin less support and infrastructure costs (including marketing, IT, clinical and compliance, training, HR and support office) as a percentage of gross revenue. It excludes Abano management fee.

More information on gross revenue and underlying earnings, which are non-GAAP financial measures and are not prepared in accordance with NZ IFRS, is available on the Abano website at [www.abano.co.nz/underlyingearnings](http://www.abano.co.nz/underlyingearnings).

**Net Promoter Score (NPS)** An index ranging from -100 to 100 that measures the willingness of customers to recommend a company's products or services to others. It is used as a proxy for gauging the customer's overall satisfaction with a company's product or service and the customer's loyalty to the brand.



# INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 NOVEMBER 2018



**INCOME STATEMENT**

For the six months ended 30 November 2018 (unaudited)

	NOTE	TOTAL		CONTINUING		DISCONTINUED	
		NOV 2018 \$000	NOV 2017 \$000	NOV 2018 \$000	NOV 2017 \$000	NOV 2018 \$000	NOV 2017 \$000
Revenue	5	142,449	133,213	142,449	123,961	-	9,252
Patient consumables and cost of products sold		(21,278)	(19,938)	(21,278)	(18,694)	-	(1,244)
Employee benefits		(78,926)	(72,820)	(78,926)	(68,509)	-	(4,311)
Depreciation and amortisation		(5,708)	(5,824)	(5,708)	(4,791)	-	(1,033)
Occupancy costs		(10,909)	(9,988)	(10,909)	(9,097)	-	(891)
Acquisition and transaction costs		(929)	(355)	(929)	(355)	-	-
Other operating expenses		(13,604)	(13,164)	(13,604)	(12,388)	-	(776)
Other operating income		938	957	938	863	-	94
<b>Operating profit</b>	4	<b>12,033</b>	<b>12,081</b>	<b>12,033</b>	<b>10,990</b>	<b>-</b>	<b>1,091</b>
Finance income		27	81	27	18	-	63
Finance expenses		(2,738)	(2,584)	(2,738)	(2,289)	-	(295)
Fair value movements		(196)	(104)	(196)	(104)	-	-
Realised foreign exchange gain/(loss)		(56)	19	(56)	19	-	-
Practice partnering scheme - profit share		(153)	-	(153)	-	-	-
Loss on sale of business		-	(188)	-	-	-	(188)
<b>Profit before income tax</b>		<b>8,917</b>	<b>9,305</b>	<b>8,917</b>	<b>8,634</b>	<b>-</b>	<b>671</b>
Income tax expense		(2,889)	(3,075)	(2,889)	(2,788)	-	(287)
<b>Profit for the period</b>		<b>6,028</b>	<b>6,230</b>	<b>6,028</b>	<b>5,846</b>	<b>-</b>	<b>384</b>
Attributable to :							
<b>Equity holders of the Company share of profit</b>		6,010	6,001	6,010	5,837	-	164
Non-controlling interests share of profit		18	229	18	9	-	220
		<b>6,028</b>	<b>6,230</b>	<b>6,028</b>	<b>5,846</b>	<b>-</b>	<b>384</b>
Earnings per share (cents)		23.13	25.40	23.13	24.70	-	0.70
Weighted average number of ordinary shares on issue (000)		25,987	23,623				

## STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 November 2018 (unaudited)

	NOV 2018 \$000	NOV 2017 \$000
Profit for the period - continuing	6,028	5,846
Profit for the period - discontinued	-	384
<b>Profit for the period</b>	<b>6,028</b>	<b>6,230</b>
<b>Other comprehensive income</b>		
Items that may be subsequently reclassified to Income Statement		
Cash flow hedges, net of tax	(440)	(62)
Exchange differences on translating foreign operations	(1,260)	3,001
<b>Total comprehensive income for the period</b>	<b>4,328</b>	<b>9,169</b>
<b>Total comprehensive income attributable to:</b>		
Equity holders of the Company	4,310	8,940
Non-controlling interests	18	229
	<b>4,328</b>	<b>9,169</b>

Items in the statement above are disclosed net of tax.

All other comprehensive income items relate to continuing operations.

## BALANCE SHEET

As at 30 November 2018 (unaudited)

	NOTE	NOV 2018 \$000	MAY 2018 \$000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	6	52,143	48,167
Intangible assets	6	10,718	8,562
Goodwill	6,7	252,785	227,309
Non-current receivables		830	840
Deferred tax asset		2,983	2,417
<b>Total non-current assets</b>		<b>319,459</b>	<b>287,295</b>
<b>Current assets</b>			
Cash and cash equivalents		6,490	3,077
Current trade and other receivables		10,143	7,319
Contract assets	12	2,466	2,025
Inventories		8,411	7,648
<b>Total current assets</b>		<b>27,510</b>	<b>20,069</b>
<b>TOTAL ASSETS</b>		<b>346,969</b>	<b>307,364</b>
<b>EQUITY</b>			
Share capital		84,390	82,594
Foreign currency translation reserve		(5,511)	(4,251)
Cash flow hedge reserve		(2,915)	(2,475)
Retained earnings		83,888	83,083
<b>Total equity attributable to equity holders of the Company</b>		<b>159,852</b>	<b>158,951</b>
Non-controlling interest		39	37
<b>TOTAL EQUITY</b>		<b>159,891</b>	<b>158,988</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings	10	136,259	97,287
Non-current payables		2,433	1,867
Derivative financial instruments	10	4,078	3,337
Deferred acquisition consideration	10	9,131	7,720
Provisions		690	650
<b>Total non-current liabilities</b>		<b>152,591</b>	<b>110,861</b>
<b>Current liabilities</b>			
Derivative financial instruments	10	24	145
Current income tax liabilities		705	1,042
Deferred acquisition consideration	10	2,852	3,412
Trade and other payables		28,132	30,813
Contract liabilities	12	2,573	1,854
Provisions		201	249
<b>Total current liabilities</b>		<b>34,487</b>	<b>37,515</b>
<b>TOTAL LIABILITIES</b>		<b>187,078</b>	<b>148,376</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>346,969</b>	<b>307,364</b>

## STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 November 2018 (unaudited)

NOTE	SHARE CAPITAL \$000	TREASURY SHARES \$000	FOREIGN EXCHANGE TRANSLATION RESERVE \$000	CASH FLOW HEDGE RESERVE \$000	RETAINED EARNINGS \$000	TOTAL \$000	NON-CONTROLLING INTEREST \$000	TOTAL EQUITY \$000
<b>Balance at 1 June 2017</b>	<b>47,956</b>	<b>(352)</b>	<b>(6,075)</b>	<b>(2,856)</b>	<b>78,885</b>	<b>117,558</b>	<b>1,001</b>	<b>118,559</b>
<b>Comprehensive Income</b>								
Profit/(loss) for the period	-	-	-	-	6,001	6,001	229	6,230
<b>Other comprehensive income</b>								
Cash flow hedge movement								
Fair values gains	-	-	-	(85)	-	(85)	-	(85)
Tax liability on fair value gains	-	-	-	23	-	23	-	23
Foreign exchange translation reserve	-	-	3,001	-	-	3,001	-	3,001
Total other comprehensive income	-	-	3,001	(62)	-	2,939	-	2,939
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>3,001</b>	<b>(62)</b>	<b>6,001</b>	<b>8,940</b>	<b>229</b>	<b>9,169</b>
<b>Transactions with owners</b>								
Dividends paid	-	-	-	-	(4,318)	(4,318)	(501)	(4,819)
Renounceable rights issue	9 33,835	-	-	-	-	33,835	-	33,835
Executive compensation expense	59	-	-	-	-	59	-	59
Foreign investor tax credits recognised	-	-	-	-	32	32	-	32
<b>Total transactions with owners</b>	<b>33,894</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(4,286)</b>	<b>29,608</b>	<b>(501)</b>	<b>29,107</b>
<b>Balance at 30 November 2017</b>	<b>81,850</b>	<b>(352)</b>	<b>(3,074)</b>	<b>(2,918)</b>	<b>80,600</b>	<b>156,106</b>	<b>729</b>	<b>156,835</b>
<b>Balance at 1 June 2018</b>	<b>82,946</b>	<b>(352)</b>	<b>(4,251)</b>	<b>(2,475)</b>	<b>83,083</b>	<b>158,951</b>	<b>37</b>	<b>158,988</b>
<b>Comprehensive Income</b>								
Profit/(loss) for the period	-	-	-	-	6,010	6,010	18	6,028
<b>Other comprehensive income</b>								
Cash flow hedge movement								
Fair values gains	-	-	-	(620)	-	(620)	-	(620)
Tax liability on fair value gains	-	-	-	180	-	180	-	180
Foreign exchange translation reserve	-	-	(1,260)	-	-	(1,260)	-	(1,260)
Total other comprehensive income	-	-	(1,260)	(440)	-	(1,700)	-	(1,700)
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>(1,260)</b>	<b>(440)</b>	<b>6,010</b>	<b>4,310</b>	<b>18</b>	<b>4,328</b>
<b>Transactions with owners</b>								
Dividends paid	-	-	-	-	(5,324)	(5,324)	(16)	(5,340)
Dividend reinvestment plan	9 1,796	-	-	-	-	1,796	-	1,796
2015 share scheme - transfer of shares from treasury stock	9 (352)	352	-	-	-	-	-	-
Foreign investor tax credits recognised	-	-	-	-	119	119	-	119
<b>Total transactions with owners</b>	<b>1,444</b>	<b>352</b>	<b>-</b>	<b>-</b>	<b>(5,205)</b>	<b>(3,409)</b>	<b>(16)</b>	<b>(3,425)</b>
<b>Balance at 30 November 2018</b>	<b>84,390</b>	<b>-</b>	<b>(5,511)</b>	<b>(2,915)</b>	<b>83,888</b>	<b>159,852</b>	<b>39</b>	<b>159,891</b>

**STATEMENT OF CASH FLOWS**

For the six months ended 30 November 2018 (unaudited)

NOTE	NOV 2018 \$000	NOV 2017 \$000
<b>Cash flows from operating activities</b>		
Receipts from customers	158,444	138,554
Payments to suppliers and employees	(142,542)	(122,991)
Interest received	27	136
Interest paid	(2,800)	(2,361)
Income tax paid	(3,499)	(2,828)
Discontinued operations	-	1,547
<b>Net cash generated from operating activities</b>	<b>9,630</b>	<b>12,057</b>
<b>Cash flows from investing activities</b>		
Sale of property, plant and equipment	-	62
Purchase of property, plant, equipment and intangible assets	6 (11,331)	(8,548)
Purchase of businesses, net of acquisition costs	7 (31,613)	(19,331)
Dividends paid to non-controlling interests	(16)	(12)
Other investing cash flows	-	(156)
Discontinued operations	-	(615)
<b>Net cash generated/(used) in investing activities</b>	<b>(42,960)</b>	<b>(28,600)</b>
<b>Cash flows from financing activities</b>		
Proceeds from borrowings	40,610	25,580
Repayment of borrowings	-	(36,602)
Equity raised - dividend reinvestment plan	9 1,796	-
Equity raised - renounceable rights issue	9 -	33,835
Dividends paid	(5,324)	(4,318)
Discontinued operations	-	113
<b>Net cash generated/(used) in financing activities</b>	<b>37,082</b>	<b>18,608</b>
<b>Net increase in cash held</b>	<b>3,752</b>	<b>2,065</b>
Cash at beginning of the period	3,077	7,055
Net increase in cash held	3,752	2,066
Exchange gain/(loss) on net assets held by foreign subsidiaries	(339)	(215)
<b>Cash at end of period</b>	<b>6,490</b>	<b>8,906</b>
<b>Cash comprises:</b>		
Cash at bank	6,490	8,906
	<b>6,490</b>	<b>8,906</b>

**RECONCILIATION OF OPERATING CASH FLOWS**

For the six months ended 30 November 2018 (unaudited)

	NOV 2018 \$000	NOV 2017 \$000
<b>Profit for the period</b>	<b>6,010</b>	<b>5,837</b>
<b>Non-cash items:</b>		
Depreciation	4,816	4,312
Amortisation of intangible assets	892	479
Recognition of deferred tax asset	(402)	99
Fair value movements	196	104
Foreign investor tax credits recognised	119	32
Share of surplus retained by non-controlling interests	18	9
Other non-cash items	41	(130)
	<b>5,680</b>	<b>4,905</b>
<b>Movement in working capital:</b>		
(Increase)/decrease in trade and other receivables	(3,518)	(2,000)
Increase/(decrease) in trade and other payables	(458)	1,226
(Increase)/decrease in inventories	987	135
	<b>(2,989)</b>	<b>(639)</b>
<b>Items classified as investing activities:</b>		
Realised loss on sale of property, plant and equipment	-	52
Acquisition and divestment costs	929	355
	<b>929</b>	<b>407</b>
Operating cash flows generated by discontinued operation	-	<b>1,547</b>
<b>Net cash flows from operating activities</b>	<b>9,630</b>	<b>12,057</b>



## NOTES TO THE INTERIM FINANCIAL STATEMENTS

### 1. GENERAL INFORMATION

The condensed consolidated interim financial statements presented are those of Abano Healthcare Group Limited and its subsidiaries (the Group). Abano Healthcare Group Limited is a company domiciled in New Zealand, is registered under the Companies Act 1993, and is a FMC Reporting Entity under part 7 of the Financial Markets Conduct Act 2013 under which the financial statements are prepared. The Group is a profit-oriented entity.

### 2. BASIS OF PREPARATION

The condensed consolidated interim financial report for the half-year reporting period ended 30 November 2018 have been prepared on a going concern basis and in accordance with New Zealand Generally Accepted Accounting Principles (GAAP) and NZ IAS 34 Interim Financial Reporting.

The interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 May 2018.

The interim financial report was approved by the Abano Board of Directors on 19 December 2018.

### 3. ACCOUNTING POLICIES

Except as disclosed below, the accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period. Changes to accounting policies have been made following the adoption of new and amended standards which came into effect during the period:

- NZ IFRS 9 Financial Instruments, and
- NZ IFRS 15 Revenue from Contracts with Customers.

The impact of the adoption of these standards and the new accounting policies are disclosed in note 12. There have been no changes in other accounting standards that would have a material impact on the financial statements.

### 4. SEGMENT INFORMATION

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Abano Board of Directors. Management has determined the operating segments based on the reports reviewed by the Board. In addition to GAAP measures, the Board also uses non-GAAP measures to assess the commercial performance of the segments.

Diagnostics is no longer a reportable segment following the disposal of Ascot Radiology Limited in the prior year. Following the disposal, Dental has become the sole focus of the Group. The Dental business operates out of both New Zealand and Australia. It has been determined that these are both reportable segments.

To provide greater comparability between the two dental segments, we report gross revenue which represents fees earned from dental patients for services rendered by dentists contracted directly by the Group plus services rendered by dentists for whom we provide facilities and services.

## NOTES TO THE INTERIM FINANCIAL STATEMENTS (Continued)

### 4. SEGMENT INFORMATION (Continued)

For the six months ended 30 November 2018	Dental New Zealand \$000	Australia \$000	Corporate \$000	Group Continuing \$000
<b>Gross revenue</b>	76,265	96,725	-	172,990
<b>Revenue</b>	76,265	66,184	-	142,449
EBITDA <sup>1</sup> before support office costs	14,841	16,932	-	31,773
Support office costs <sup>2</sup>	(5,436)	(6,367)	(2,229)	(14,032)
EBITDA after support office costs	9,405	10,565	(2,229)	17,741
Depreciation and amortisation	(2,985)	(2,645)	(78)	(5,708)
<b>Operating profit</b>	6,420	7,920	(2,307)	<b>12,033</b>
Net financing costs				(2,907)
Foreign exchange loss				(56)
Practice partnering scheme - profit share				(153)
<b>Net profit before tax</b>				<b>8,917</b>
Acquisition and transaction costs included in EBITDA	62	867	-	929
<b>TOTAL ASSETS</b>	<b>140,671</b>	<b>202,434</b>	<b>3,864</b>	<b>346,969</b>
<b>TOTAL LIABILITIES</b>	<b>27,591</b>	<b>120,451</b>	<b>39,036</b>	<b>187,078</b>
<b>CAPITAL EXPENDITURE</b>	<b>6,259</b>	<b>3,349</b>	<b>-</b>	<b>9,608</b>

For the six months ended 30 November 2017	Dental New Zealand \$000	Australia \$000	Corporate \$000	Group Continuing \$000
<b>Gross revenue</b>	70,060	79,425	-	149,485
<b>Revenue</b>	70,060	53,901	-	123,961
EBITDA <sup>1</sup> before support office costs	14,835	13,738	-	28,573
Support office costs <sup>2</sup>	(4,867)	(5,919)	(2,006)	(12,792)
EBITDA after support office costs	9,968	7,819	(2,006)	15,781
Depreciation and amortisation	(2,499)	(2,221)	(71)	(4,791)
<b>Operating profit</b>	7,469	5,598	(2,077)	<b>10,990</b>
Net financing costs				(2,375)
Foreign exchange gain				19
<b>Net profit before tax</b>				<b>8,634</b>
Acquisition and transaction costs included in EBITDA	88	267	-	355
<b>TOTAL ASSETS</b>	<b>122,223</b>	<b>162,303</b>	<b>5,303</b>	<b>289,829</b>
<b>TOTAL LIABILITIES</b>	<b>25,299</b>	<b>101,928</b>	<b>21,256</b>	<b>148,483</b>
<b>CAPITAL EXPENDITURE</b>	<b>3,990</b>	<b>4,449</b>	<b>92</b>	<b>8,531</b>

<sup>1</sup> Earnings before interest, tax, depreciation, amortisation, foreign exchange gain/(loss) and practice partnering scheme profit share.

<sup>2</sup> Support office costs include brand related marketing costs as well as certain marketing costs which are not currently allocated directly to practices.

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

### 5. REVENUE

The Group adopted NZ IFRS 15 from 1 June 2018 which resulted in changes in accounting policies relating to the recognition of revenue (refer note 12).

Revenue includes patient fees for dental services rendered by dentists contracted by the Group and fees charged to dentists under Facilities and Services Agreements (FASAs).

	Group Continuing	
	Nov 2018 \$000	Nov 2017 \$000
<b>Timing of revenue recognition</b>		
Over time	141,612	123,232
At a point in time	837	729
<b>Total revenue</b>	<b>142,449</b>	<b>123,961</b>
<b>Geographical markets</b>		
New Zealand	76,265	70,060
Australia	66,184	53,901
<b>Total revenue</b>	<b>142,449</b>	<b>123,961</b>

### 6. PROPERTY, PLANT & EQUIPMENT AND INTANGIBLE ASSETS INCLUDING GOODWILL

During the six months to 30 November 2018 the Group acquired property, plant and equipment with a cost of \$6.5m (30 November 2017: \$7.1m) and intangible assets (excluding goodwill) of \$3.1m (30 November 2017: \$1.7m). Refer to note 7 for goodwill on acquisitions.

An additional \$2.7m of property, plant and equipment was acquired as part of business acquisitions during the six months (30 November 2017: \$1.6m).

At 30 November 2018, the Group had commitments to purchase leasehold improvements and plant and equipment amounting to \$2.1m (30 November 2017: Nil).

Goodwill is tested for impairment on an annual basis unless there is an indicator of impairment which requires that testing be undertaken immediately. As reported in the 31 May 2018 annual financial statements, there were four practices considered to be more sensitive to a change in key assumptions. Since this date, three of these four practices have improved, becoming less sensitive to a change in key assumptions, while an additional practice has shown a decline in performance which makes it more sensitive. As at 30 November 2018, neither of the two practices that are identified as being more sensitive to key assumptions, nor any other practices, are considered to be impaired.

## NOTES TO THE INTERIM FINANCIAL STATEMENTS (Continued)

### 7. ACQUISITION OF BUSINESSES

During the six months to 30 November 2018 the Group acquired the following businesses for a total cash consideration of \$29.4m and deferred consideration of \$2.2m. All acquisitions were asset purchases, with the exception of The Dental Group which was a share purchase. The Group controls 100% of all businesses acquired.

	Acquisition Date
West Pymble Dental (NSW)	29 Jun 2018
Channel Dental Care (TAS)	3 Jul 2018
The Dental Group (VIC) <sup>1,2</sup>	12 Jul 2018
Ferny Grove (QLD)	25 Jul 2018
Southside Little Smiles (QLD)	31 Jul 2018
Dental Associates (Auckland)	28 Sep 2018
Nambucca Dental Surgery (NSW)	25 Oct 2018
Hutt City Dental Centre (Wellington)	31 Oct 2018
Halls Head Dental Group (WA) <sup>2</sup>	12 Nov 2018
Duncraig Village Dental (WA)	23 Nov 2018
Alstonville Family Dental (NSW)	30 Nov 2018
Viva Dental (Auckland)	30 Nov 2018

<sup>1</sup> Maven Dental Group Pty Limited acquired D & R Dental Pty Limited on 12 July 2018 and plans to liquidate the company in the 2019 financial year. This entity was acquired in conjunction with the acquisition of The Dental Group.

<sup>2</sup> Multi site business.

#### Summary of the effect of the above acquisitions:

	Dental \$000
<b>Fair value of net assets acquired:</b>	
Current assets	1,109
Current liabilities	(302)
Non-current assets	2,707
Goodwill on acquisition	28,082
<b>Total consideration</b>	<b>31,596</b>
Cash paid	29,410
Deferred acquisition consideration	2,186
<b>Total consideration</b>	<b>31,596</b>

The fair value of the net assets acquired is considered to be provisional until the end of the twelve months following the date of acquisition of each business when the initial accounting for the acquisition will be complete.

The goodwill is attributable to the economies of scale expected from combining the operations of the Group. Goodwill on acquisition will not be deductible for tax purposes.

**NOTES TO THE INTERIM FINANCIAL STATEMENTS (Continued)****7. ACQUISITION OF BUSINESSES (CONTINUED)**

The payment of deferred consideration is subject to achieving future performance targets which are generally in excess of the current EBITDA. There are also provisions to provide greater certainty that base EBITDA will be achieved.

The acquired businesses have contributed revenue and profit before tax, excluding depreciation, of \$5.3m and \$1.5m respectively since date of acquisition to 30 November 2018. This excludes any incremental support office costs associated with these acquisitions.

The revenue and profit before tax, excluding depreciation, to 30 November 2018 had the businesses and assets been acquired at the beginning of the period are estimated at \$9.4m and \$3.1m for the six months respectively. This excludes any incremental support office costs associated with these acquisitions.

Refer note 10 for the methodology applied to fair value the deferred acquisition consideration.

**8. DISCONTINUED OPERATIONS**

On 19 December 2017 the Company entered into an agreement to sell its 71.17% shareholding in Ascot Radiology Limited to its radiologist shareholders for a total consideration of \$17.0m. There were no material conditions to be filled and therefore the Company ceased consolidating Ascot Radiology Limited from 19 December 2017. The sale resulted in a gain on sale of \$2.1m after transaction costs. Settlement of the share sale and repayment of the intercompany loan occurred on 27 February 2018.

The results of the Radiology business are presented in these financial statements as discontinued operations in the prior year. The income statement and cash flow statement distinguish discontinued operations from continuing operations and comparative figures for the six month period ended 30 November 2017 have been restated.

**9. SHARE CAPITAL****Dividend Reinvestment Plan**

Under the Dividend Reinvestment Plan (DRP), applied to the dividend paid on 20 August 2018, the Company issued 217,048 shares at \$8.37 per share.

The issue price was determined, in accordance with the DRP, as the volume weighted average sale price for all Abano shares sold on the NZX over the five trading days immediately following the record date of 9 August 2018, less a 2.5% discount.

**2015 Executive Share Scheme**

On 20 August 2018, 45,860 shares were issued under the employee share scheme approved by the Board on 21 August 2015.

The scheme ended on 31 May 2018. The Board confirmed the performance criteria had been met over the duration of the scheme. No expense was recognised for the period ended 30 November 2018 (2018: \$59,000).

**Renounceable Rights Issue in Prior Year**

On 30 August 2017, the Company allotted 4,292,509 ordinary shares at a subscription price of \$8.15 per share pursuant to 1:5 renounceable rights offer and shortfall bookbuild. Total capital raised amounted to \$35.0m from which underwriting costs and other direct costs of issue of \$1.2m were deducted.

**NOTES TO THE INTERIM FINANCIAL STATEMENTS (Continued)****10. FINANCIAL INSTRUMENTS****Borrowings**

On 10 October 2018, the Group undertook a number of amendments to its Loan Facilities with ASB Bank Limited (ASB).

- The Group redocumented each of its three loan facility agreements to incorporate various amendment letters since last restatement on 30 September 2015.
- The Group increased its NZD and AUD facilities by additional tranches of \$10m and A\$42m respectively for initial three year term ending 10 October 2021.

The Group's net bank debt as at 30 November 2018 was \$129.8m (30 November 2017: \$95.0m). The Group currently has facilities with ASB Bank of \$49.0m (\$40.8m utilised) and A\$137.0m (A\$89.6m utilised). The Group bank debt is non current. The Group uses its available facilities to manage its working capital position.

**Contractual Pricing**

All of the Group's cash and bank borrowings are subject to cash flow interest rate risk as floating interest rates are reset as market rates change. The net exposure to interest rate variability and the contractual repricing dates for those interest rate changes are shown on the following table:

	Repricing less than 1 year \$000	Repricing 1-5 Years \$000	Repricing over 5 years \$000	Total \$000
<b>As at 30 November 2018</b>				
<b>Floating rate instruments</b>				
Cash	6,490	-	-	6,490
Total bank borrowings	(136,350)	-	-	(136,350)
<b>Total variable rate instruments</b>	(129,860)	-	-	<b>(129,860)</b>
<b>Effect of interest rate swaps</b>				
Notional principal amount of interest rate swaps used in cash flow hedges	10,000	26,128	15,663	51,791
<b>Notional exposure to variable interest rates as at 30 November 2018</b>				<b>(78,069)</b>
Notional principal amount of forward start interest rate swaps used in cash flow hedges	-	35,995	67,321	103,316
<b>As at 31 May 2018</b>				
<b>Floating rate instruments</b>				
Cash	3,077	-	-	3,077
Total bank borrowings	(97,287)	-	-	(97,287)
<b>Total variable rate instruments</b>	(94,210)	-	-	<b>(94,210)</b>
<b>Effect of interest rate swaps</b>				
Notional principal amount of interest rate swaps used in cash flow hedges	10,000	26,428	15,840	52,268
<b>Notional exposure to variable interest rates as at 31 May 2018</b>				<b>(41,942)</b>
Notional principal amount of forward start interest rate swaps used in cash flow hedges	-	36,260	67,940	104,200

**NOTES TO THE INTERIM FINANCIAL STATEMENTS (Continued)****10. FINANCIAL INSTRUMENTS (CONTINUED)****Contractual Maturities**

The following table details the remaining contractual maturities at 30 November 2018 of the Group's financial liabilities and derivative financial instruments. These are calculated using contractual undiscounted cash flows and the earliest date the Group can be required to pay.

	Carrying Value \$000	Less than 1 Year \$000	Between 1 & 5 Years \$000	More than 5 Years \$000	Total \$000
<b>As at 30 November 2018</b>					
<b>Financial Liabilities</b>					
Borrowings	136,259	5,186	138,359	-	143,545
Trade and other payables	13,142	11,795	-	1,591	13,386
Contract liabilities	2,573	2,573	-	-	2,573
Interest rate swap derivatives	4,102	789	4,604	1,329	6,722
Deferred acquisition consideration	11,983	3,053	9,273	590	12,916
<b>Total</b>	<b>168,059</b>	<b>23,395</b>	<b>152,236</b>	<b>3,510</b>	<b>179,142</b>
<b>As at 31 May 2018</b>					
<b>Financial Liabilities</b>					
Borrowings	97,287	3,787	104,413	-	108,200
Trade and other payables	20,385	19,185	-	1,465	20,650
Contract liabilities	1,854	1,854	-	-	1,854
Interest rate swap derivatives	3,482	781	4,235	1,952	6,968
Deferred acquisition consideration	11,132	3,416	8,278	252	11,946
<b>Total</b>	<b>134,140</b>	<b>29,023</b>	<b>116,926</b>	<b>3,669</b>	<b>149,618</b>

**Financial Instruments by Category**

The following table details the classification of financial assets and liabilities held by the Group. Classification depends on the purpose for which they were entered into.

	Fair Value Hedging Instrument \$000	Amortised Cost \$000	Total \$000
<b>Assets per Balance Sheet</b>			
<b>As at 30 November 2018</b>			
Cash and cash equivalents	-	6,490	6,490
Trade and other receivables excluding prepayments	-	9,245	9,245
Contract assets	-	2,466	2,466
	<b>-</b>	<b>18,201</b>	<b>18,201</b>
<b>As at 31 May 2018</b>			
Cash and cash equivalents	-	3,077	3,077
Trade and other receivables excluding prepayments	-	5,150	5,150
Contract assets	-	2,025	2,025
	<b>-</b>	<b>10,252</b>	<b>10,252</b>

**NOTES TO THE INTERIM FINANCIAL STATEMENTS (Continued)****10. FINANCIAL INSTRUMENTS (CONTINUED)**

	Fair Value Hedging Instrument \$000	Fair value through Profit and Loss \$000	Other financial liabilities at amortised cost \$000	Total \$000
<b>Liabilities per Balance Sheet</b>				
<b>As at 30 November 2018</b>				
Borrowings	-	-	136,259	136,259
Trade and other payables	-	1,347	11,795	13,142
Contract liabilities	-	-	2,573	2,573
Derivative financial instruments	4,102	-	-	4,102
Deferred acquisition consideration	-	11,983	-	11,983
	<b>4,102</b>	<b>13,330</b>	<b>150,627</b>	<b>168,059</b>
<b>As at 31 May 2018</b>				
Borrowings	-	-	97,287	97,287
Trade and other payables	-	1,200	19,185	20,385
Contract liabilities	-	-	1,854	1,854
Derivative financial instruments	3,482	-	-	3,482
Deferred acquisition consideration	-	11,132	-	11,132
	<b>3,482</b>	<b>12,332</b>	<b>118,326</b>	<b>134,140</b>

**Fair Value Measurements**

The following table sets out an analysis of the Group's financial instruments that are measured subsequent to initial recognition at fair values and are grouped into levels based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).



**NOTES TO THE INTERIM FINANCIAL STATEMENTS (Continued)****10. FINANCIAL INSTRUMENTS (CONTINUED)**

	Level 1 \$000	Level 2 \$000	Level 3 \$000	Total \$000
<b>As at 30 November 2018</b>				
<b>Financial liabilities</b>				
Interest rate swaps - cash flow hedges	-	4,102	-	4,102
Deferred acquisition consideration	-	-	11,983	11,983
Practice partnering scheme - contractual entitlements	-	-	1,347	1,347
<b>Total</b>	<b>-</b>	<b>4,102</b>	<b>13,330</b>	<b>17,432</b>
<b>As at 31 May 2018</b>				
<b>Financial liabilities</b>				
Interest rate swaps - cash flow hedges	-	3,482	-	3,482
Deferred acquisition consideration	-	-	11,132	11,132
Practice partnering scheme - contractual entitlements	-	-	1,200	1,200
<b>Total</b>	<b>-</b>	<b>3,482</b>	<b>12,332</b>	<b>15,814</b>

There were no transfers between any levels and no change in valuation techniques during the six months ended 30 November 2018.

Interest rate swaps are valued by applying discounted cash flow methodology that uses BBSY or BKBM spot rates from forward interest rate curves for the duration of each swap.

Deferred acquisition consideration is valued by applying discounted cash flow methodology that considers the present value of expected payment discounted using risk-adjusted discount rates that range from 2.64% to 3.62% (30 November 2017: 2.68% to 2.89%). The expected payment is determined by considering the possible scenarios of forecast EBITDA or NPAT, the amount to be paid under each scenario and the probability of each scenario.

The practice partnering scheme - contractual entitlements are valued by applying a discounted cash flow methodology using a risk-adjusted discount rate of 4.57%.

Sensitivities to reasonably possible changes in non-market observable valuation inputs would not have a material impact on the Group's financial results.

**NOTES TO THE INTERIM FINANCIAL STATEMENTS (Continued)****10. FINANCIAL INSTRUMENTS (CONTINUED)**

The following table presents the changes in level 3 instruments for the period ended 30 November 2018:

Reconciliation - Deferred consideration	Nov 2018 \$000	Nov 2017 \$000
Opening balance at start of period	11,132	11,130
Deferred consideration paid during period	(1,274)	(1,708)
Deferred consideration on new acquisitions	2,186	1,179
Fair value amortisation on deferred acquisitions	150	181
Foreign exchange movement	(90)	180
Prior deferred consideration revalued (recognised in Income Statement)	(121)	(93)
<b>Closing balance at end of period</b>	<b>11,983</b>	<b>10,869</b>
Total fair value movements for the period included in the Income Statement for liabilities held at the end of the reporting period	29	88

Reconciliation - Practice partnering scheme	Nov 2018 \$000	Nov 2017 \$000
Opening balance at start of period	1,200	-
Fair value movement on contractual entitlement	147	-
<b>Closing balance at end of period</b>	<b>1,347</b>	<b>-</b>
Total fair value movements for the period included in the Income Statement for liabilities held at the end of the reporting period	147	-

**11. CONTINGENT LIABILITIES**

The Group is party to legal proceedings arising from its operations. The Group establishes provisions for claims and proceedings that constitute a present obligation when it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of such obligation can be made. As of 30 November 2018 the only legal proceedings pending are those for which the Group has determined that the possibility of a material outflow is remote.

## NOTES TO THE INTERIM FINANCIAL STATEMENTS (Continued)

### 12. ACCOUNTING STANDARDS

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the period ended 31 May 2018.

There were two new standards applied during the period. This note explains the impact of the adoption of NZ IFRS 9 Financial Instruments and NZ IFRS 15 Revenue from Contracts with Customers on the Group's financial statements and discloses the new accounting policies that have been applied from 1 June 2018. It also describes the expected impact of new standards that are not yet effective.

#### • NZ IFRS 9: Financial Instruments

This standard replaces NZ IAS 39 and addresses the classification, measurement and recognition of financial assets and liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

The Group notes the following impacts from the adoption of the new standard on 1 June 2018.

Adoption of NZ IFRS 9 has resulted in the reclassification of cash and cash equivalents and trade receivables from loans and receivables under NZ IAS 39 to being classified as measured at amortised cost under NZ IFRS 9. Management has assessed there is no change in the fair value of the financial assets as a result of the reclassification. NZ IFRS 9 replaces the 'incurred loss' model in NZ IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to the Group in relation to financial assets classified at amortised cost, being the Group's trade receivables and contract assets. Based on the Group's assessment of historical provision rates, there is no material financial impact on the impairment provisions on adoption of this standard and no adjustment to retained earnings is required.

For the current period, the Group has applied the standard's simplified approach and has calculated ECLs for trade receivable and the components of contract assets that are exposed to credit losses based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward looking factors specific to these balances and the economic environment. To measure the expected credit losses, trade receivables and the component of contract assets that are exposed to credit losses have been grouped based on shared credit risk characteristics and the days past due. Contract assets exposed to credit losses arise from dental services provided under a deferred payment plan, these substantially share the same risk characteristics as the trade receivables for the same types of dental services. The Group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

Trade receivables and contract assets are written off when there is no reasonable expectation of recovery, such indicators including failure by debtor to engage in repayment plan or failure to make contractual payments for more than 120 days past due.

There is no impact on the Group's accounting for financial liabilities in the current period. The standard requires that for financial liabilities designated at fair value through profit or loss (FVTPL) any change in fair value arising as a consequence of a change in the company's own credit risk should be recognised in other comprehensive income rather than profit or loss. The Group's financial liabilities carried at FVTPL include deferred acquisition consideration and practice partnering scheme contractual entitlements.

## NOTES TO THE INTERIM FINANCIAL STATEMENTS (Continued)

### 12. ACCOUNTING STANDARDS (CONTINUED)

The new hedge accounting rules align the accounting for hedging instruments more closely with the Group's risk management practices. The interest rate swaps in place as at 31 May 2018 qualified as cash flow hedges under NZ IFRS 9. The Group's risk management strategies and hedge documentation are aligned with the requirements of NZ IFRS 9 and these relationships are therefore treated as continuing hedges.

Following adoption of NZ IFRS 9 on 1 June 2018, there is no material impact on the Group's financial position and no restatement is required.

#### • NZ IFRS 15: Revenue from Contracts with Customers

This standard addresses recognition of revenue. It replaces the current revenue recognition guidance in NZ IAS: 18 Revenue and NZ IAS 11: Construction Contracts. The new standard is based on the principle that revenue is recognised when control of a good and service transfers to a customer.

The Group adopted NZ IFRS 15 from 1 June 2018 which resulted in changes in accounting policies relating to the recognition of revenue.

Management have reviewed each of the Group's revenue streams under the five-step model outlined in NZ IFRS 15 and concluded adoption of NZ IFRS 15 has no material impact on revenue recognition. Therefore, there is no requirement to restate revenue reported in prior periods. The details of the review process are outlined below. Accounting policies have been amended to ensure that the five-step method, as defined in NZ IFRS 15, is applied consistently to revenue recognition processes across the Group.

To assess the impact of NZ IFRS 15 on the Group, contracts within the Dental business were aggregated to create portfolios of contracts. An individual contract from each portfolio was selected as being representative of each unique contract type. For each contract type, the five-step method was applied to assess the impact on revenue recognition.

The five-step method for recognising revenue from contracts with customers involves consideration of the following:

1. Identifying the contract with the customer
2. Identifying performance obligations
3. Determining the transaction price
4. Allocating the transaction price to distinct performance obligations
5. Recognising revenue

The table over provides further information on the application of NZ IFRS 15 across the Group.

**NOTES TO THE INTERIM FINANCIAL STATEMENTS (Continued)****12. ACCOUNTING STANDARDS (CONTINUED)**

Revenue type	Description	Key judgements	Outcome	Timing of recognition
Standard fee revenue	Dental services provided to patients by dentists directly contracted to the Group.	No major judgement required.	There is one performance obligation being the dental service provided.	<b>Over time</b> Revenue is recognised over the period the performance obligation is satisfied.
Retail dental products	Sale of dental products to patients.	No major judgement required.	There is one performance obligation being the provision of a product.	<b>Point in time</b> Revenue is earned at point of sale when the product is delivered.
Dental plan	Contract for multiple dental treatments with payment over 12 months.	Determining allocation of purchase price over the distinct performance obligations.	Revenue allocated based on relative market value of treatments.	<b>Over time</b> Revenue is recognised over the period each performance obligation is satisfied.
Specialist Orthodontic services	Provision of orthodontic services with payment over a 24 month period.	Determining allocation of purchase price over distinct performance obligations.	Revenue allocated based on relative market value of treatments.	<b>Over time</b> Revenue is recognised over the period each performance obligation is satisfied.
FASA revenue	Access to dental facilities and services are provided to dentists under a Facilities and Services Agreement (FASA), enabling dentists to provide dental services to patients.	Determining the classification of dentists as principal or agent in the relationship with patients.	Dentists act as principal in the relationship with patients.	<b>Over time</b> FASA revenue is recognised as the facilities and services are provided and the performance obligations are satisfied.

**NOTES TO THE INTERIM FINANCIAL STATEMENTS (Continued)****12. ACCOUNTING STANDARDS (CONTINUED)**

Following the adoption of NZ IFRS 15 on 1 June 2018, the Group now separately recognises contract assets and contract liabilities. Contract assets represent revenue recognised for which payment is not yet due as well as costs of fulfilment of contracts. Contract liabilities represent cash received for which the revenue is not yet earned. The comparative amounts as at 31 May 2018 have been reclassified.

Dentists are classified as principal or agent depending on their contract terms and the distinction will determine the appropriate revenue recognition treatment. Significant judgement is required to conclude on the appropriate classifications, which is made more complex due to differences in contracting methods used across the Group. New Zealand contracts generally take the form of "Contract for Services" where dentists earn a commission. In Australia, most contracts are in the form of "Facilities and Services Agreements" where dentists pay for the use of the dental practice facilities and services. The new accounting standard takes a revised approach to the identification of principal or agent, resulting in the need to re-confirm the Group's existing classification, which the Company is doing in consultation with its auditors. Should a change in treatment be deemed necessary, this would result in a change to the reporting of revenue and patient consumables and cost of products sold in the Income Statement, but there would be no change to operating profit. There would also be no change to Gross Revenue reported in the Segment note.

A number of new standards, amendments and interpretations to existing standards have been published by the International Accounting Standards Board (IASB) are effective for future periods and which the Group will adopt when they become effective. None of these are expected to have a significant effect on the consolidated financial statements of the Group, except:

**NZ IFRS 16 Leases (effective for 31 May 2020 reporting period)**

NZ IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases and supersedes NZ IAS 17. NZ IFRS 16 eliminates the current dual accounting model for lessees which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases, unless the lease term is 12 months or less or the underlying asset has a low value. The accounting for lessors will not significantly change.

This standard will primarily affect accounting for the Group's operating leases. As at 30 November 2018, the Group has non-cancellable operating lease commitments of \$46.4m. This does not take account of any potential obligations resulting from the future exercise of renewal rights.

A technology solution to calculate the full quantitative impact of NZ IFRS 16 on the existing operating leases as at 1 June 2019, being the date of adoption, is being implemented. This requires management to make some key judgements, including the incremental borrowing rate used to discount lease assets and liabilities; and the lease term including potential rights of renewals. Practice leases are renegotiated with multiple rights of renewal and assigned upon acquisition of a practice. It is anticipated that these rights of renewal will be exercised.

On adoption, NZ IFRS 16 will have a significant impact on the Group's consolidated balance sheet and consolidated income statement. A lease liability will be recognised at net present value, based on existing leases, of approximately \$102m and depending on the adoption method selected, a right of use asset will be recognised of either an equivalent amount or approximately \$90m. If the latter option is chosen, opening retained earnings will reduce by approximately \$12m. If any new leases are entered into before adoption, these estimates will change.

**NOTES TO THE INTERIM FINANCIAL STATEMENTS (Continued)****12. ACCOUNTING STANDARDS (CONTINUED)**

The impact on the consolidated income statement for the period ending 31 May 2020 is expected to be a decrease in occupancy costs (operating lease rental expense), increase in depreciation and amortisation expense and increase in finance costs (interest expense).

The above has no cash effect to the Group and the change is for financial reporting purposes only.

Current estimates are likely to change at time of adoption and for the period ended 31 May 2020, mainly due to finalisation of management's judgements and subsequent movements in the inherent borrowing rate (interest rates), new lease contracts entered into by the Group, any changes to existing lease contracts and change in management's judgement to exercise rights of renewals under lease arrangements.

The Group expects to adopt NZ IFRS 16 using the modified retrospective approach in the period ending 31 May 2020 and will not restate comparative amounts. The Group will recognise the cumulative effect of initially applying NZ IFRS 16 as an adjustment to the opening balance of retained earnings at the date of initial application.

**13. SUBSEQUENT EVENTS**

There were no subsequent events post 30 November 2018.

**DIRECTORY****DIRECTORS**

Dr Tracey Batten  
Appointed 23 May 2018

Murray Boyte  
Deputy Chair  
Appointed 26 February 2015

Danny Chan  
Appointed 19 December 2008

Philippa (Pip) Dunphy  
Chair  
Appointed 25 September 2012

Trevor Janes  
Appointed 23 September 2005

Dr Ginni Mansberg  
Appointed 24 August 2016

**RISK ASSURANCE AND AUDIT COMMITTEE**

Chair: Trevor Janes  
Danny Chan  
Dr Tracey Batten

**GOVERNANCE AND REMUNERATION COMMITTEE**

Chair: Dr Tracey Batten  
Murray Boyte  
Dr Ginni Mansberg

**REGISTERED OFFICE AND ADDRESS FOR SERVICE**

Level 16  
West Plaza Building  
3-7 Albert Street, Auckland

**AUDITORS**

PricewaterhouseCoopers  
PricewaterhouseCoopers Tower  
188 Quay Street, Auckland

**BANKERS**

ASB Bank Limited  
12 Jellicoe Street, Auckland

Commonwealth Bank of Australia  
240 Queen Street  
Brisbane, Australia

**SOLICITORS**

Harmos Horton Lusk  
Vero Centre  
48 Shortland Street, Auckland

**SHARE REGISTRAR**

Computershare Investor Services Limited  
159 Hurstmere Road  
Takapuna, Auckland



