

## ABANO FY19 RESULTS ANNOUNCEMENT

For the year ended 31 May 2019

- Abano's FY19 results reflect strong acquisition growth in the first half of FY19, and increased investment into growth initiatives and business infrastructure, as well as a higher cost base which has impacted on margins.
- FY19 EBITDA was \$32.7m and NPAT was \$7.6m after a \$2.6m non-cash goodwill impairment and including a \$1.1m writeback of deferred acquisition consideration. Underlying NPAT was \$10.9m.
- A final partially imputed dividend of 8 cents per share (cps) has been declared, taking FY19 dividends to 24 cps share.
- The company has moved to focus on organic growth and realising the potential of the existing networks. Targeted initiatives are underway and good progress is being made.
- The Board has appointed advisors to provide additional resource and assist in the strategic review.

\$millions NZD <sup>i</sup>	FY19	FY18 Dental Only <sup>ii</sup>	Variance FY19: FY18 Dental	FY18 Actual Incl. Radiology	Variance FY19: FY18
Gross Revenue <sup>iii</sup>	338.9	303.4	12%	312.7	8%
Revenue	279.3	250.2	12%	259.5	8%
EBITDA <sup>iv</sup>	32.7	32.4	1%	34.5	(5)%
Underlying EBITDA <sup>v</sup>	33.7	33.7	-	35.8	(6)%
Non-cash goodwill impairments	2.6	1.3	99%	1.3	99%
NPAT	7.6	10.3	(26)%	12.6	(40)%
Underlying NPAT	10.9	13.3	(18)%	13.6	(20)%

\*Percentage change based on \$000 reported in the FY19 financial statements

### Commentary

Listed trans-Tasman dental provider, Abano Healthcare Group Limited (NZX:ABA), has reported a positive performance in New Zealand offset by weaker trading in Australia, as it moves its focus to organic growth and realising the potential of its existing networks.

Abano is now solely focused on the trans-Tasman dental sector and, with 239 dental practices, is the owner and operator of the largest dental group in the region. Its goal remains to build dental networks of scale in Australia and New Zealand, which lead the way in quality patient care and experience, provide a rewarding work environment and generate an appropriate return on investment. Significant investment has been made into IT, people and systems, to build a platform to support the scale of the group.

Lumino The Dentists in New Zealand delivered same practice revenue growth of 1.2%, while Maven Dental Group in Australia was -2.9% as it continued to be adversely affected by a weaker economy, trading conditions and workforce factors. Abano is focused on improving the return on investment for its shareholders and initiatives are being put into place to lift the performance of both networks, particularly in Australia, with early progress now being achieved.

Expansion by acquisition continued, primarily in the first half of the year, with 16 practices acquired which are expected to deliver \$27.5m in annualised gross revenue. The majority of acquisitions were in the Australian dental market and included two very large Australian dental practices. Acquisitions contributed \$18.8m in gross

revenue and \$4.9m in EBITDA for the FY19 period, with the full benefits expected to be seen in FY20. In addition, the Lumino Central practice was relocated to a new flagship practice in Auckland's CBD which opened in July 2018.

## Financial Results

For the FY19 year ended 31 May 2019, Abano reported an 8% increase in revenue and gross revenue, to \$279.3m and \$338.9m respectively. Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) were \$32.7m, with NPAT of \$7.6m.

The FY19 result includes non-cash goodwill impairments of \$2.6m relating to four Australian dental practices in Abano's portfolio which have been unfavourably impacted by long term practice specific factors; and a write back of deferred acquisition consideration of \$1.1m<sup>1</sup>.

Abano also reports on underlying earnings which are the basis of Abano's dividend policy. Underlying EBITDA was \$33.7m, and Underlying NPAT was \$10.9m.

On a like for like basis, excluding the prior year contributions from the radiology business which was sold in February 2018, revenue and gross revenue were both up 12%, with EBITDA up 1% and Underlying NPAT down 18%.

Operating cashflow remains strong for Lumino and Maven. Net bank debt increased to \$134.6m, primarily due to acquisitions.

The Board has declared a partially imputed dividend of 8 cents per share, resulting in total FY19 dividends of 24 cents per share. The Dividend Reinvestment Plan will again be provided to allow shareholders the opportunity to reinvest their dividend.

## Network performance

Lumino and Maven delivered \$16.9m and A\$19.5m in EBITDA respectively, with increasing Clinical Days but a decrease in Revenue Per Clinical Day.

Lumino delivered same practice revenue growth of 1.2% for the year. Significant investment has been made over FY18/19 into IT, people and systems to support the scale of the group and growth initiatives. After seven years of continuous margin growth, Lumino's underlying EBITDA margin<sup>vi</sup> reduced to 11.5% in FY19 and is expected to return to prior levels in the future.

The challenging economic conditions noted in Australia since 2014 have continued and, along with workforce and other business factors, have impacted on Maven Dental Group. This resulted in same practice revenue being down 2.9% for the year, with a corresponding decline in same store EBITDA offset by positive contributions from acquisitions. Maven reported an underlying EBITDA margin of 10.9%, slightly down on the previous year (FY18:11.1%).

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<sup>1</sup> Under accounting standards, goodwill is required to be assessed at the practice level rather than on a group basis, and non-cash impairments may be required in some cases for practices which face longer term challenges and underperformance. Deferred acquisition consideration is paid to vendors based on practice performance and a write back may be recognised if performance is below acquisition targets and unlikely to be paid.

Abano is adapting its growth strategy to suit market conditions and implementing initiatives to lift business performance. During FY19, Abano made significant investments into the use of data to drive productivity and better clinical practice. This included the establishment of Clinical Dashboards across both networks and Practice Essentials across Maven. In addition, the Lumino Dental Plan was launched into 50 practices across the New Zealand.

### **Organic Growth strategy**

Abano is focused on improving the return on investment for its shareholders. As previously announced, following a strategic review undertaken in the second half of the financial year, Abano moved to focus on organic growth across both networks, expanding existing platform capacity and optimisation of the existing network structure, as well as selective acquisition growth for Lumino.

This will see a reduction in the number of practices acquired by Abano with annualised savings of approximately \$1.8m in direct and indirect acquisition costs in FY20. In line with the emphasis on organic growth, the support offices in both New Zealand and Australia have been resized.

Abano's recent investment into IT has enabled better access to data and allowed for more detailed analysis across the networks. Along with the maturing of the Maven network, long term trends are now becoming visible. Key growth drivers are able to be monitored on a timely basis for both networks, specifically, Patient Visits, Clinical Days and Revenue per Clinical Day. A number of initiatives are being implemented in line with these, which are expected to deliver a lift in same practice performance and improve the profitability of the business.

Early successes are now being seen due to targeted digital marketing campaigns, website optimisation and promotion of the Lumino Dental Plan; a focus on recruitment; training and development initiatives to upskill clinicians and practice management staff; and the successful piloting of the Practice Partnership Scheme to encourage retention of senior clinicians.

### **FY20 outlook**

The Board and management are focussed on building on the strengths of the existing business, lifting performance and delivering shareholder value. Underpinning all activity is the continuing commitment to delivering high quality clinical care and an excellent patient experience.

Earnings recovery is expected in FY20, driven by continued same store sales growth in New Zealand, the full year benefits of FY19 acquisitions, and contributions from further New Zealand acquisitions expected in the second half of the FY20 financial year.

### **Update on expressions of interest**

As previously advised, Abano has received various expressions of interest, which may offer strategic opportunities and value to shareholders. Cameron Partners and Rothschild & Co have been appointed to provide additional resource and to assist the Board. There is no certainty that any expression of interest will lead to a proposal for shareholders to consider or to any transaction, either in respect of Abano itself or the company's businesses.

**Key Dates:**

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|----------------------|--|
| • 31 May 2019        | Financial Year End   |
| • 20 August 2019     | FY19 final dividend record date  |
| • 28 August 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 |
| • 3 September 2019   | FY19 final dividend payment and issue of shares under DRP  |
| • By end-August 2019 | Release of FY19 Annual Report and Shareholder Review   |

**ENDS**

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Abano Healthcare Group is listed on the NZX and owns and operates one of the largest dental networks in Australasia, comprising Lumino The Dentists in New Zealand and Maven Dental Group in Australia.

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**NOTES**

Non-GAAP (generally accepted accounting practices) financial measures do not have standardised meanings prescribed by GAAP and therefore may not be comparable to similar financial information presented by other entities. The Non-GAAP financial information included in this release has not been subject to review by the auditors. Non-GAAP measures are used by management to monitor the business and are useful to provide information to investors to assess business performance. A reconciliation of non-GAAP numbers can be found in the Investor Presentation dated the same date as this announcement. More information on gross revenue, EBITDA and underlying earnings is available on the Abano website at [www.abano.co.nz/underlyingearnings](http://www.abano.co.nz/underlyingearnings).

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

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

<sup>iii</sup> Gross revenue is a non-GAAP financial measure and includes all dental revenues before payment of dentists' commissions.

<sup>iv</sup> EBITDA is a non-GAAP financial measure and excludes 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.

<sup>v</sup> Underlying earnings are reported for both Net Profit After Tax ("NPAT", a GAAP compliant measure) and EBITDA and exclude gains/losses arising on sale of businesses, IFRS adjustments and impairments, including their tax effect. These are the measures used within the Company to evaluate performance, establish strategic goals and to allocate resources and provide the basis of Abano's dividend policy.

<sup>vi</sup> Dental margin is calculated as dental Underlying EBITDA as a percentage of Gross Revenue.