

Project Zoom – Increase in scheme consideration

1. Background

- (a) Abano Healthcare Group Limited (**Abano**) and Adams NZ Bidco Limited (**Bidco**) are parties to a scheme implementation agreement dated 31 August 2020 (the **SIA**).
- (b) Bidco has agreed to increase the base Consideration (i.e., before any adjustment) from NZ\$4.45 per Scheme Share to NZ\$4.75 per Scheme Share.
- (c) The parties have entered into this agreement to record that variation.
- (d) Capitalised terms used but not defined in this variation agreement have the meanings given to them in the SIA.

2. Variation to the SIA

The parties agree that the SIA is varied with immediate effect as follows:

- (a) The reference or references to “NZ\$4.45” in the following provisions of the SIA are replaced with “NZ\$4.75”:
 - (i) clause 6.18(b)(i);
 - (ii) clause 1.1 of Schedule Nine;
 - (iii) clause 1.2(a) of Schedule Nine;
 - (iv) clause 1.3(b) of Schedule Nine; and
 - (v) clause 2.1(a)(i)(A) of Schedule Nine.
- (b) The reference to “NZ\$3.70” in the following provisions of the SIA is replaced with “NZ\$4.00”:
 - (i) clause 6.18(b)(ii);
 - (ii) clause 1.3(a) of Schedule Nine; and
 - (iii) clause 2.1(a)(ii) of Schedule Nine.
- (c) Schedule Eleven of the SIA is replaced with Schedule 1 of this variation agreement.

3. Variation to the Scheme Plan

The parties agree that the Scheme Plan is varied with immediate effect as follows:

- (a) The reference to “NZ\$4.45” in the following provisions of the Scheme Plan is replaced with “NZ\$4.75”:
 - (i) clause 3.1(b)(i);
 - (ii) clause 1.1 of the Schedule to the Scheme Plan;
 - (iii) clause 1.2(a) of the Schedule to the Scheme Plan;
 - (iv) clause 1.3(b) of the Schedule to the Scheme Plan; and
 - (v) clause 2.1(a)(i)(A) of the Schedule to the Scheme Plan.

- (b) The reference to “NZ\$3.70” in the following provisions of the Scheme Plan is replaced with “NZ\$4.00”:
 - (i) clause 1.3(a) of the Schedule to the Scheme Plan; and
 - (ii) clause 2.1(a)(ii) of the Schedule to the Scheme Plan.

4. Announcement

The parties agree that immediately after execution of this variation agreement, Abano will release to NZX a public announcement in the form set out in Schedule 2 of this variation agreement.

5. Timetable

- (a) The parties acknowledge that, as a result of the circumstances that led to the parties agreeing to the variations in clauses 2 and 3, there have been, and will be, delays to the Timetable. Neither party will have any claim against the other in respect of those delays.
- (b) As soon as practicable after the date of this variation agreement, the parties, acting reasonably and in good faith, will agree amendments to the Timetable, with a view to implementing the Scheme:
 - (i) as soon as reasonably practicable in accordance with the SIA; and
 - (ii) in any event, if practicable, with an Implementation Date of no later than 23 December 2020.

6. General

- (a) Other than as amended by this variation agreement, the SIA and the Scheme Plan continue in full force and effect.
- (b) This variation agreement may be executed in counterparts, which taken together must constitute one and the same agreement, and any party (including any duly authorised representative of a party) may enter into this variation agreement by executing a counterpart. Scanned signatures are taken to be valid and binding to the same extent as original signatures.
- (c) This variation agreement is to be governed by, and construed in accordance with, New Zealand law.

EXECUTED

Abano Healthcare Group Limited by:

Signature of director / authorised person

Name of director / authorised person

Adams NZ Bidco Limited by:



Signature of director

Simon Harle

Name of director



Signature of director

Ralph Norris

Name of director

EXECUTED

Abano Healthcare Group Limited by:

 

Signature of director / authorised person

Philippa Jane Dunphy and Tracey Leigh Batten

Name of director / authorised person

Adams NZ Bidco Limited by:

Signature of director

Signature of director

Name of director

Name of director

Schedule 1
(Revised Schedule Eleven of the SIA)

Schedule Eleven

Permitted Capital Raising - Example of Adjustment to Consideration

The example set out below is for the purposes of illustrating the impact on the Consideration of the permitted capital raising provisions in clause 6.18.

Part A: Example scenario

Details for Permitted Capital Raising	Value
Total capital to be raised under example Permitted Capital Raising	\$14,999,998.50
Total number of additional Shares issued under example Permitted Capital Raising	6,666,666
NZ dollar issue price of Shares issued under example Permitted Capital Raising	\$2.25
Estimated total aggregate costs and expenses incurred by Abano in relation to the example Permitted Capital Raising	\$1,000,000
Number of Shares on issue at the date of this Agreement	26,282,238
Consideration under this Agreement (absent the impact of any Consideration Adjustment Events)	\$4.75

Part B: Calculation of adjustment to Consideration (based on the formula in clause 6.18(b))

Input	Calculation
X	= \$4.75 x 26,282,238 = \$124,840,630.50
Y	= \$2.25 x 6,666,666 = \$14,999,998.50
Z	= \$1,000,000.00
W	= 26,282,238 + 6,666,666 = 32,948,904
Base Consideration <i>clause 6.18(b)(i)</i>	= $\frac{(X + Y - Z)}{W} = \frac{(\$124,840,630.50 + \$14,999,998.50 - \$1,000,000.00)}{32,948,904}$ = \$4.21
Minimum Consideration <i>clause 6.18(b)(ii)</i>	= \$4.21 – \$0.75 = \$3.46

TRADING UPDATE FOR YTD, SCHEME PRICE INCREASED TO \$4.75 PER SHARE

Trading Update

- Abano Healthcare Group Limited (NZX:ABA) has reported its unaudited trading results for the first four months (1 June to 30 September 2020) of the FY21 financial year:
 - Abano's businesses have continued to recover strongly, with year on year growth in same practice revenue, new and existing patient numbers and appointments. Forward bookings for both Maven and Lumino are also above prior period numbers.
 - Lumino same practice revenue growth is +11% compared to the same period last year, while Maven same practice revenue is up +3%.
 - Unaudited gross revenue is \$124.6m with Underlying EBITDA of \$14.7m (pre-NZ IFRS 16) plus net Government wage subsidies of \$10.6m, totalling \$25.3m¹.
- Abano's latest forecast is for FY21 Underlying EBITDA of \$32.0 (pre-NZ IFRS 16), plus net Government wage subsidies of \$10.2m², totalling \$42.2m.

Headline Scheme Price Increased to \$4.75 per share

- The Independent Adviser, Calibre Partners, last week advised Abano that it has updated its draft valuation, taking into account the updated Treasury discount rates and CPI forecasts for 30 September 2020 released by New Zealand Treasury on 7 October 2020 and used by Calibre in its DCF valuation, as well as Abano's actual trading results to end-September 2020 and Abano's recently updated FY21 forecast. This resulted in Bidco's headline price of \$4.45 for each Abano share falling below the bottom end of Calibre's draft valuation range for Abano shares.
- Abano notified Bidco of these circumstances and following consultation, Bidco has increased the headline Scheme price from \$4.45 to \$4.75 per Abano share. The increased headline Scheme price is within Calibre's draft valuation range for Abano shares. The increased Scheme price remains subject to the specified price reductions, up to a maximum of 75 cents per share, if any one of a number of defined Adjustment Events occur.
- Abano's Directors continue to unanimously recommend shareholders vote in favour of the Scheme, in the absence of a superior proposal and provided that the Scheme price is within the Independent Adviser's final valuation range for Abano shares.³

Trading Update for the first four months of the FY21 financial year (1 June to 30 September 2020)

The positive recovery and performance trend seen in the first few months of FY21 has continued and Abano's businesses have recovered strongly since the first lockdowns in New Zealand and Australia in March and April. Abano attributes this to a combination of deferred demand from the lockdown period, clinicians taking less leave as a result of COVID-19, as well as record numbers of new patients and strong existing patient numbers visiting Abano's dental practices, in part due to Abano's digital marketing campaigns.

¹ More information on non-GAAP measures, being gross revenue, EBITDA and underlying earnings is available on the Abano website at <https://www.abano.co.nz/investor-information/non-gaap-financial-information>. 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, fair value adjustments and impairments, including their tax effect.

² \$0.4m difference between management projections and actual net subsidies for the month of September.

³ Abano's Directors do not intend to change their recommendation and/or vote against the Scheme if, prior to the Scheme Meeting, an Adjustment Event results in a reduction such that the Scheme Price falls below the valuation range. However, they do reserve their right to do so if the Independent Adviser's valuation range for the Abano Shares changes for any other reason and, after that change, the Scheme Price is below the valuation range.

Company Announcement

For the first four months of FY21, unaudited Group gross revenue was \$124.6m, up 9% on the prior comparative period, with Underlying EBITDA of \$14.7m (pre-NZ IFRS 16) plus net Government wage subsidies of \$10.6m, totalling \$25.3m.

Lumino has reported +11% same practice revenue growth compared to the prior comparative period. Revenue growth of +18% across June, July and September was offset by a revenue decline of -8% in August as a result of the almost three week COVID-19 restrictions on dental services in Auckland. The impact on revenue of the Auckland shutdown in August has largely been offset by higher actual revenue in September.

Maven same practice revenue was up +3% for the four-month period, with Australian performance continuing to be impacted by COVID restrictions, both in clinical practice, particularly for specialist clinicians, and due to border restrictions making it difficult to recruit and for staff movements out of state.

New and existing patient numbers for the FY21 year to date are 8% up on the prior comparative period, with almost 46,000 new patients in the four month period, a 10% increase on the prior year. Appointments were also up across the Group, with targeted marketing campaigns driving website traffic. The Lumino Dental Plan continues to be seen as a valuable offer with more than 21,000 New Zealanders now signed up. October forward bookings for both Maven and Lumino are also above prior period numbers.

Abano's latest forecast, completed during September 2020, is for FY21 Underlying EBITDA of \$32.0m (pre-NZ IFRS 16), plus Government wage subsidies of \$10.2m, totalling \$42.2m. This is based on the first quarter actual results to 31 August 2020, forward bookings and projections for the remainder of the financial year. The Board recognises that the future economic environment remains uncertain, and that Abano's trading in future months may not be reflective of the first few months of the financial year.

The Board believes that the business is on track to make a full recovery from the impacts of COVID-19 over time, however there may be risks of further adverse impacts from COVID-19 in the near term. Abano's strategic focus and key initiatives for FY21 are centered on same practice revenue growth, margin improvement and growing the profitability of the business.

Revised headline Scheme price

The Independent Adviser, Calibre Partners, last week advised Abano that it has updated its draft valuation, taking into account the updated Treasury discount rates and CPI forecasts for 30 September 2020 released by New Zealand Treasury on 7 October 2020 and used by Calibre in its DCF valuation, as well as Abano's actual trading results to end-September 2020 and Abano's recently updated FY21 forecast. This resulted in Bidco's headline price of \$4.45 for each Abano share falling below the bottom end of Calibre's draft valuation range for Abano shares.

In accordance with its obligations under the Scheme Implementation Agreement with Bidco (SIA), Abano notified Bidco of these circumstances late on 7 October 2020 and the parties commenced a consultation period. That consultation has now completed and Bidco has increased the Scheme headline price from \$4.45 to \$4.75 per Abano share. The increased headline Scheme price is within Calibre's current draft valuation range for Abano shares. The increased Scheme price remains subject to the specified price

Company Announcement

reductions in the SIA, of up to a maximum of 75 cents per share, if any one of a number of defined Adjustment Events occur. A copy of the SIA variation agreement signed on 12 October 2020 is attached to this announcement.

Abano's Directors continue to unanimously recommend shareholders vote in favour of the Scheme, in the absence of a superior proposal and provided that the Scheme price is within the Independent Advisor's final valuation range for Abano shares.³ As previously noted, shareholders will also need to consider that, should the Scheme not proceed the company will likely undertake a capital raising to reduce its debt facilities and provide greater resilience to further impacts from COVID-19.

Abano will now recommence the necessary regulatory processes (which it paused at the end of last week), including the High Court application for initial orders to convene the Scheme meeting, and will advise shareholders of any changes to the previously announced indicative timetable.

The Independent Adviser's Report (including Calibre's valuation range for the Abano shares) will be provided to shareholders with the Scheme Booklet.

ENDS

Released on behalf of Abano Healthcare Group Limited by Jackie Ellis tel +64 9 360 8500 or email jackie@ellisandco.co.nz

For more information, visit www.abanohealthcare.co.nz or please call:

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About Abano Healthcare Group

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.