20 December 2018
Company Announcement

ABANO FY19 HALF YEAR RESULTS

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

- Abano has reported a year on year uplift in results, driven by acquisition growth of its dental networks in New Zealand and Australia.
- Investment has continued into business infrastructure to support the growing size of the dental networks and lift business capability, and initiatives to drive patient visits. Early benefits are now starting to be seen.
- Highlights for the period include the start of the rollout of the Lumino Dental Plan in New Zealand, the establishment of the trans-Tasman leadership team, opening of the flagship Lumino practice in Auckland's CBD, the launch of a new TV advertising campaign, and the rollout of customised dashboards and other IT and technology initiatives.
- The company has declared an interim dividend of 16 cents per share.

$millions NZD[1]	**HY19**	**HY18 Excl. Radiology[2]**	**Variance**	**HY18 Actual Incl. 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%

Listed trans-Tasman dental provider, Abano Healthcare Group Limited (NZX:ABA), has delivered a year on year uplift in results for the six months to 30 November 2018 (HY19), driven by dental practice acquisitions as investment continues into business infrastructure and growth initiatives.

Abano reported gross revenue for the six months of $173.0m, EBITDA of $17.7m and Net Profit After Tax (NPAT) of $6.0m.

Abano also reports on underlying earnings[i] which provide the basis of Abano's dividend policy. The Company's Underlying EBITDA[ii] 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%.

The Board has 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.

Abano is now solely focused on the trans-Tasman dental sector and, with 237 dental practices, is the owner and operator of the largest dental group in the region. Its goal is to build dental networks of scale in

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[1] All dollar values are in New Zealand dollars unless otherwise stated.

[2] Abano sold Ascot Radiology in February 2018, completing its transition to a sole focus dental company.

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.

Abano's strategy is two-fold: To expand its 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.

In HY19, Abano acquired 14 dental practices expected to provide $26.1m in annualised gross revenue and $6.2m in annualised EBITDA, excluding incremental support office costs associated with these acquisitions. The majority of these were larger practices in Australia and included two very large Australian dental practices. Acquisition consideration was $31.6m (HY18: $18.4m), including deferred acquisition consideration of $2.2m, based on a projection of outperformance. 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.

Net bank debt rose to approximately $130m, primarily due to acquisitions, with bank facilities extended to approximately $193m in October 2018.

As well as acquisition growth, Abano continued to invest into infrastructure, IT and people to lift business capability; and growth initiatives to drive patient visits and improve same practice performance. While the cost of these investments is being incurred now, 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 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 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.

Lumino The Dentists delivered same practice gross revenue growth[ii] of 1.6% for the half year period. Lumino's 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. After seven years of continuous improvement from 8.2% in FY11 to 13.9% in FY18, Lumino's underlying EBITDA margin[3] reduced to 12.4% in HY19 but is expected to return to previous levels over time.

[3] Underlying EBITDA margin for Lumino and Maven excludes any corporate allocation

In Australia, Maven has been impacted by challenging economic conditions, with declining consumer sentiment and slowing economic growth. Monthly same practice gross revenue for Maven remains variable and was -1.2% for the six months to the end of November. However, the increasing scale of the network and careful cost management has seen margin improve from 11.1% at the end of FY18 to 11.8% for HY19.

Total dental underlying EBITDA margin of 12.1% was in line with the previous first half year.

The investment into projects over the last two years, including a significant investment in IT (the move of the support offices into the cloud and the data warehouse), the Dental Plan, the Rangiora greenfield practice opened in September 2017 and the Lumino CBD relocation, has led to an increase in depreciation expense.

Abano CEO, Richard Keys, said: “We have invested significantly into business infrastructure and growth initiatives in the past two years to lift capability, support the growing size of our trans-Tasman group and drive practice performance. Pleasingly, early benefits are already starting to be seen.

“In particular, we are now starting to realise opportunities resulting from our investment into IT in the past few years. The data warehouse is enabling advanced analytics, and customised online dashboards, with real time updates, allowing us to benchmark and measure individual dentist and practice performance. This is resulting in better clinical and operational management and is helping to identify opportunities to lift same store performance.”

Outlook

Abano’s 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.

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 Dennis Surlan as Group COO and Anne Brown as Group GM Marketing, both based in Australia. 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.

Chair of Abano, Pip Dunphy, said: “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.”

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Key Dates:

- End of half year: 30 November 2018
- 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: 18 February 2019
- Interim Dividend Payment Date and issue of shares under the DRP: 22 February 2019
- Release of HY19 Interim Report: By end-February 2019
- End of financial year: 31 May 2019

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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[i] 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.

More information on gross revenue, EBITDA and underlying earnings is available on the Abano website at https://www.abano.co.nz/investor-information/non-gaap-financial-information.

[ii] 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.