

# MAKING CONTACT

## ABANO SHAREHOLDER NEWSLETTER



Abano's growth strategy remains firmly in place, with milestones being achieved on a regular basis as we build valuable and sustainable, long term businesses, particularly in dental.

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### COMPANY OVERVIEW

We were pleased to welcome a number of our shareholders to our 2014 Annual Meeting which was held recently in Auckland.

As is our usual practice, at the meeting we updated shareholders on our performance in the year to date with presentations from both Trevor Janes, our Chairman and Richard Keys, Abano's Chief Operating Officer, which identified milestones we have reached in our long term growth strategy.

Business highlights for the six months include the continuing growth of Abano's trans-Tasman dental group with 11 acquisitions up to end of November 2014, providing \$13.9 million in additional annualised gross revenues.

The value of our growing dental group can be seen in the comparative values and transactions that have taken place in the market recently.

Of particular note, is the recent listing by Pacific Smiles Group on the ASX in Australia. Pacific Smiles had 41 practices, generating gross revenue of A\$95.9 million and an EBITDA of approximately A\$15 million at FY14 year end. It listed with an Enterprise Value of A\$186.3 million and ended its first day of trading up approximately 50%, providing an Enterprise Value of over A\$275 million.

As at 30 November 2014, our Abano dental group had 164 practices, generating annualised gross revenues of over NZ\$220 million with an annualised EBITDA of over NZ\$25 million.

Our Australian audiology group is delivering a pleasing and improving performance and has now achieved break even at EBITDA, in line with our expectations of a positive EBITDA for the full FY15 financial year.

Our Auckland-based radiology business, Insight+Ascot Radiology, is seeing demand strengthening for its high end scanning technologies as referrals increase.

Meanwhile, Aotea Pathology, which has provided community pathology services in Wellington for over 80 years, is involved in an RFP process for the renewal of its single, fixed price contract. This contract with the local DHBs currently expires in October 2015.

As in the past with this "winner takes all" process, being the successful tenderer will ensure the continuation of Aotea Pathology. It may also lead to a longer tenure with a wider scope of services in partnership with the DHBs.

CONTINUED OVER

While we are confident we have submitted a strong proposal to continue providing the regional pathology service, we note that if we lose the contract, we will need to write off the book value of this business, which is currently \$11 million.

As announced prior to the meeting, we are selling our orthotics business, The Orthotics Centre. Settlement is expected at the end of January 2015 and the proceeds from the sale will be applied to a reduction of debt and will ultimately be reinvested into Abano's growth businesses, in particular dental.

We have had a hold and maintain strategy in place for this business for several years as we have focused on other much larger sectors where there is significant scale and opportunity to expand and add value. As we have shown before, where a business no longer falls within our investment strategy, we will divest to the right owners at the right time.

This is the last remaining business in Abano's rehabilitation sector following the sale of the brain injury rehabilitation business in June 2012, and therefore Abano's portfolio will revert to three sectors going forward. For FY14, the Orthotic Centre provided 4% of Abano's gross revenues.

Also at the Annual Meeting, I advised shareholders of my planned retirement as CEO and Managing Director, in 12 months' time, at the 2015 Annual Meeting. I have been at the helm of Abano for over 14 years and have been proud to be a part of the Company's growth, evolution and success.

Currently, Abano has more than 2,200 talented people in locations across New Zealand, Australia and South East Asia, delivering our healthcare services to thousands of people every day. We are growing strongly and are well on the way to exceeding the record Underlying Net Profit After Tax we generated in 2009, prior to the sale of Bay New Zealand.

## GUIDANCE FOR THE SIX MONTHS ENDING 30 NOVEMBER 2014

As is our usual practice, we provided guidance for the first half year, at our Annual Meeting.

Performance in the first half of the year is forecast to deliver improving revenue and profitability for the six months to 30 November 2014, over the same period last year.

This improved result is expected despite the ongoing softness of the Australian economy and a continuing weakness of the Australian dollar against the NZ dollar, which for the first five months of this financial year had fallen a further 5% compared to the same period last year. In addition, costs of over \$350,000 associated with the special meeting requisitioned by interests associated by Mr Hutson and Mr Reeves and the subsequent High Court action will be included in the first half results.

The timing of settlements for dental acquisitions will also impact on the half year result. While dental practice acquisitions are ahead of plan in New Zealand, they are below plan in Australia in the period up to November 2014, due to a variety of factors including timing delays in vendor requirements. However, the Abano dental group has a good acquisition pipeline and we expect to achieve our full year acquisition target.

Therefore, for the first half, revenue is expected to be \$113.6 to \$115.6 million (HY14: \$106.1m) and gross revenues are expected to be \$151.1 to \$153.1 million (HY14: \$136.2m).

EBITDA is forecast for \$14.1 to \$15.1 million (HY14: \$13.9m) with underlying EBITDA of \$14.7 to \$15.7 million (HY14: \$14.8m).

Net Profit After Tax is expected to be ahead of the previous year's first half by over 40%, at between \$3.2 to \$3.7 million (HY14: \$2.3m), with underlying NPAT<sup>3</sup> of between \$3.6 to \$4.1 million, up over 20% on the same period last year (HY14: \$3.0m).

	HY14 \$ MILLIONS	HY15 GUIDANCE \$ MILLIONS
Gross Revenue <sup>1</sup>	136.2	151.1 - 153.1
Revenue	106.1	113.6 - 115.6
EBITDA	13.9	14.1 - 15.1
Underlying EBITDA <sup>2,3</sup>	14.8	14.7 - 15.7
NPAT	2.3	3.2 - 3.7
Underlying NPAT <sup>3</sup>	3.0	3.6 - 4.1

### Notes

<sup>1</sup> Gross revenues include the audiology group and Australian dental revenues before payment of dentists' commissions

<sup>2</sup> Underlying EBITDA excluding non-cash items required to be expensed under the International Financial Reporting Standards (IFRS)

<sup>3</sup> 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).

## NEW DIVIDEND POLICY

Following the steady and continuing growth we have seen over the last few years and following a review, the Abano Board has announced a new dividend policy for the 2015 financial year. Subject to relevant factors at the time, including working capital and growth, the annual dividend paid will be between 50-70% of Underlying Net Profit After Tax.

The Directors believe that this dividend policy provides an attractive investment balance between those who require income and those who wish to see earnings reinvested in the Company. Along with the dividend reinvestment plan, this policy will ensure we maintain a prudent capital structure for the continued growth of the Company.

## 2014 ANNUAL MEETING

Shareholders passed all resolutions at the 2014 Abano Annual Meeting:

- Authorised Directors' to fix the auditor's remuneration
- Re-election of Mr Danny Chan as a Director
- Re-election of Mrs Susan Paterson as a Director
- Authorised \$34,500 increase in total Directors' remuneration to \$564,000

# OUR PEOPLE

## PRIME MINISTER'S SCHOLARSHIP FOR LUMINO CEO



CEO of Lumino The Dentists, Andy Tapper, will be jetting off to London Business School next year as the recipient of a Prime Minister's Business Scholarship.

He will be attending the Senior Executive Programme at the London Business School, which explores three key themes challenging executives around the globe: strategy, leadership and transformation. The programme will assist Andy to drive transformational change to the way the dental sector traditionally operates and help Abano's dental sector continue its international expansion.

With a background in law and corporate finance, Andy first joined Abano in 2005 as General Manager, Business Development, before moving to his current role with Abano's dental sector in 2009. As well as overseeing the successful growth and evolution of Lumino in New Zealand, Andy also provides strategic input and management support for Dental Partners in Australia.

The scholarships, which were launched in 2010, are designed to build business capability and enhance New Zealand's opportunity for growth by developing skills in management and international business leadership.

Fifty-one people have been awarded Prime Minister's Business Scholarships since 2010 including Abano's COO/CFO, Richard Keys, who was a 2012 recipient of the Scholarship. Richard completed the Challenge of Leadership course at INSEAD Business School in Singapore and France in 2013.

# ABANO DENTAL



## THE DIGITAL DENTIST

Dentistry is becoming ever more sophisticated and technology is changing how dentists communicate with patients, diagnose problems and plan treatments.

At Lumino, investment into integrative digital technology is seen to be of tremendous benefit to patients. The business has identified three areas where it is increasing investment, including digital scanning, digital and panoramic x-rays and 3D cone beam x-ray machines.

Digital scanning combines an inter-oral camera with CAD/CAM technology to enable the dentist to scan a tooth which may need a larger restoration, such as a crown. The 3D software converts the digital picture to a 3D virtual model of the patient's prepared tooth. The restoration is designed on screen using the software while the patient waits. The crown is then either made at the practice or the data is transmitted to an off-site dental lab to produce the crown. What this means to the patient is a faster, more accurate and less intrusive dental experience.

Lumino is also working towards having 100% of its practices using digital x-rays. About half of Lumino

practices also have an OPG x-ray machine which takes a panoramic x-ray of the teeth and jaw, from one side of the face to the other – ear to ear. Because it displays details that may not be visible on other x-rays or radiographs, it's a helpful tool in diagnosis and treatment planning, although it doesn't eliminate the need for standard x-rays.

3D cone beam x-ray machines are also a technology that Lumino is looking to put into more of its practices. Sophisticated software turns 3D dental x-rays into a 3D image, giving dentists an accurate picture inside the jaws and teeth, and nerve canals. This helps dentists plan complex treatments such as placing dental implants and orthodontics. This advanced equipment ensures the highest degree of safety for the implant patient and the maximum success rate.

  
**Lumino The Dentists**

**0800 LUMINO (0800 586466)**  
**lumino.co.nz**

## NEW STATE-OF-THE-ART PRACTICE IN TAKAPUNA



Lumino The Dentists has recently opened a purpose-built practice, with two of its North Shore practices coming together to offer dentistry services from one, new state of the art practice. It is the largest dental practice on the North Shore with eight dentists and three hygienists working from nine modern surgeries, some with views over Auckland Harbour.

The practice provides a full range of services from free teen dentistry to dentures, orthodontics and cosmetic dental makeovers. As well as some of Takapuna's best known dentists, the practice also offers the specialist services of Fiona Davies Payne, a specialist for people with special needs and Dr Brett Hawkins, who operates an orthodontic practice two days a week.

**Lumino The Dentists is at Level 2, 19 Como Street, Takapuna (entrance through the Como Street Cafe). To make an appointment phone 361 7156 or visit [www.lumino.co.nz/takapuna](http://www.lumino.co.nz/takapuna) to book online. They would love to hear from you.**

## DENTAL PARTNERS ROLLS OUT ONLINE MARKET PLACE

The launch of a new web based 'marketplace' is giving Dental Partners' practices more buying power. The Unimarket portal has been in use by Lumino since 2010 and was rolled out into the Dental Partners network in October this year.

The acceptance of this new online marketplace concept by Dental Partners' suppliers has been impressive, with a very high level of engagement. The portal provides for greater transparency of supplier pricing and volumes which in turn facilitates the opportunity for significant savings and increased competition amongst suppliers.

As a comprehensive electronic marketplace, the portal covers everything within the Dental Partners' system from composite resin to paper clips and as it's based online, it is a paperless system that eradicates double handling of physical invoices.

## CLINICIANS' CONFERENCE ENCOURAGES COLLEGIALLY

Dental Partners currently has more than 270 clinicians, with many more joining the network every year as the group continues to grow through acquisition.

Building the culture of the organisation and encouraging collegiality and the sharing of knowledge across the group are fundamental to its long term success.

The inaugural Dental Partner's Leadership conference held in November 2014 was attended by over 120 delegates, primarily Lead Clinicians, from across the network.

The keynote speaker for the conference was CEO/ President of USA based organisation, The Mastery Company, Dr Marc Cooper who has extensive experience in not only the dental industry but the corporate sector in general, consulting to various entities including Silicon Valley start ups and Fortune 500 companies.

Dr Cooper's sessions pushed everyone out of their comfort zones, ensuring attendees were challenged to think outside the box in regards to how to foster collaboration. Feedback was positive with most leaving the conference empowered and ready to 'step up' within their own practices.



# ABANO DIAGNOSTICS

## PROVIDING PREGNANCY PEACE OF MIND

In New Zealand, if you are pregnant, you can have screening for certain genetic and chromosomal conditions in your baby. Pregnant women have two screening options - a first trimester combined screening which combines a blood test and a nuchal translucency ultrasound scan and a second trimester maternal serum screening which is a blood test. Many people also choose to have a fetal anatomy ultrasound in the second trimester as well. Occasionally, the tests can also pick up if a mother is potentially at risk of a pregnancy related health condition.

Both of Abano's diagnostic businesses play an important role in antenatal screening. Aotea Pathology provides routine blood screening during pregnancy as well as HIV screening for mothers.

Insight+Ascot Radiology is recognised as one of the leading providers of antenatal ultrasound scanning in Auckland and is one of the few in New Zealand to be accredited in nuchal scanning. Obstetric scans are offered at three of Insight+Ascot's Auckland clinics which all boast state of the art 4D ultrasound machines, specialised medical software to support analysis and highly trained and experienced sonographers.

Many people choose to have a 4D scan, providing them with an amazing close up view of their baby in the womb. A 4D scan also offers medical benefits, allowing for enhanced visualisation of fetal structures, such as the face.

Insight+Ascot is very fortunate to have the added expertise of Obstetrician & Gynaecologist Emma Parry. Emma is a sub-specialist in Maternal Fetal Medicine and is Clinical Director at the New Zealand Maternal Fetal Medicine Network (NZMFMN). She has varied clinical interests, but is particularly focused on multiple pregnancy, the role of 3D scanning and echocardiography.

More information on Insight+Ascot Radiology's Obstetric Ultrasound services can be found on the website [www.insightradiology.co.nz](http://www.insightradiology.co.nz).

**Insight+ASCOT**  
RADIOLOGY

09 520 9550

[insightradiology.co.nz](http://insightradiology.co.nz)



## INTRODUCING DR EMMA PARRY MBBS, MD, FRANZCOG, CMFM

Dr Emma Parry is a Specialist Obstetrician and Gynaecologist and a sub-specialist in Maternal Fetal Medicine. She is Clinical Director at the Auckland District Health Board and the New Zealand Maternal Fetal Medicine Network (NZMFMN).

Emma established the NZMFMN and introduced the high tech procedure of Selective Fetoscopic Laser Photocoagulation for Twin to Twin Transfusion Syndrome to New Zealand. She has varied clinical interests, but is particularly focused on multiple pregnancy, role of 3D scanning and echocardiography (ultrasound imaging of the fetal heart).

In 2010, Emma was the first recipient of the Next Magazine Woman of the Year award for her work improving access and quality of High risk Maternity Services for women in New Zealand.

Emma is well known within the field of Obstetrics and Gynaecology both in New Zealand and Australia and is involved in training and teaching for both medical and midwifery colleagues. She is a Spokesperson for the Royal Australian and New Zealand College of Obstetricians and Gynaecologists (RANZCOG).

At Insight+Ascot Radiology, Emma is a member of the specialist obstetric team, providing sub-specialist opinion, performing invasive procedures and offering a high risk consultation service.

Emma has worked with Insight+Ascot Radiology since 2011 and is one of the 15 radiologist shareholders in this business.

## AOTEA PATHOLOGY CONTRACT UPDATE

Aotea Pathology in Wellington holds the single contract for community-referred laboratory services in Wellington and Hutt Valley region. This contract expires in October 2015.

In 2013, the three DHBs in the wider Wellington, Hutt Valley and Wairapara regions developed a long term strategy for the provision of laboratory services in their regions. Since March 2014, the DHBs have been exploring opportunities to progress an integrated laboratory service and different partnership models, such as alliancing and joint venture arrangements.

Aotea Pathology has been providing services in the region for over 80 years and has been working closely with the DHBs during their review. The business is recognised internationally as well as by both the local medical community and the DHBs for the high quality, professional and effective service that it provides and for being at the forefront on innovations such as electronic referrals and reporting.

Aotea Pathology is keen to remain a key provider of laboratory services in the region and recently submitted a proposal for a continuation of service provision. As in the past, with this "winner takes all" process, being the successful tenderer will ensure the continuation of the Aotea Pathology business and may lead to a longer tenure and a wider scope of services in partnership with the DHBs.

An outcome is expected to be announced by the DHBs in early 2015 and while we are confident we have submitted a strong proposal, we note that if we lose the contract, we will need to write off the book value of this business, which is currently \$11 million.

## DID YOU KNOW...

Aotea Pathology performs 10,000 tests on 3,000 patients each day

We have 224 staff and 82 years of continuous pathology service in the region

200 phone calls for test results are received each day

17,000 throat swabs are tested annually

Our phlebotomy team perform 450 house calls each week

70% of all medical diagnoses require a pathology test

100% of all cancer diagnoses require a pathology report

## AOTEA PATHOLOGY SUPPORTS RESEARCH INTO DRUG RESISTANT GONORRHOEA

Reports of multi drug resistant gonorrhoea are now common internationally and the development of a gonorrhoea 'super bug' which is untreatable appears to be on the horizon.

Aotea Pathology recently sponsored and supported a research thesis to develop a molecular test to predict resistance to antibiotics for the organism that causes the sexually transmitted disease.

The molecular methods developed were able to show that an important marker of resistance had indeed entered the NZ population of circulating gonorrhoeae and also showed that resistance to other antibiotics was on the rise. This provided important epidemiological information and has set the stage for development of further molecular methods to monitor and predict antimicrobial resistance in this organism.

Working closely with the molecular biology department, Mackenzie Nicol, Head of Microbiology at Aotea and Collette Bromhead, Head of Molecular Biology at Aotea, have published the results of this study in the prestigious International Journal of Sexually Transmitted Infections; a branch of the British Medical Journal.

# ABANO AUDIOLOGY

## BAY AUDIO AUSTRALIA EXPANDS IN NSW



Bay Audio Hearing Experts has opened its first new stores in Australia since 2011, with the launch of three new stores in the Australian market over August, September and October this year.

The new stores were opened in Erina on the NSW Central Coast and Shellharbour and Corrimal on the NSW South Coast and all three stores have been trading strongly since their launch.

During the same time, the Wynnum store in Brisbane was relocated within the same shopping centre, and the Hervey Bay and Cleveland non-retail stores in Queensland were relocated in retail shopping centres in June and July.

The relocation of Hervey Bay and Cleveland also means that 31 of the 36 stores are now in retail shopping centres, which keeps with Bay Audio's business model.

The opening of the new stores takes Bay Audio's network to 36 stores in Australia which is a great result off the back of the growth of the brand over the last twelve months.

## KEY DATES

31 May 2015: Financial Year End

By End-July 2015: Financial Results announced

By End-August 2015: Annual Report released

## SHAREHOLDER COMMUNICATIONS

Abano offers shareholders the convenience of receiving all shareholder communications by email.

Shareholder communications sent electronically may include the annual report, interim report, share transaction statements, dividend payment advices and any other company related information that Abano deems appropriate to send via electronic means.

We encourage all shareholders to access our company communications electronically as this reduces costs and benefits the environment.

### Register to receive electronic communications

Email [enquiry@computershare.co.nz](mailto:enquiry@computershare.co.nz) with written confirmation that you wish to receive all future communications electronically. Please include your Shareholder Number in the email.

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You will be directed to the Computershare website, where you can view your portfolio of investments and update your details, including change of address, banking instructions and IRD number. You can also elect to participate in, or withdraw from, the Abano Dividend Reinvestment Plan.