

# MAKING CONTACT

## ABANO SHAREHOLDER NEWSLETTER



**2015 CATEGORY  
AWARD WINNER**

**WE WERE DELIGHTED  
TO WIN THE 2015  
INFINZ EMERGING  
LEADERS CORPORATE  
COMMUNICATOR  
AWARD FOR THE  
SECOND TIME IN THE  
PAST THREE YEARS**

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### COMPANY OVERVIEW

The last few months has been a time of change for our company as we have sharpened our investment focus on businesses that offer scale and growth opportunities, are predominantly funded by private payment and are based on a fee for service model. Our dental, audiology and radiology businesses are all examples of investments which meet these criteria.

However, within our portfolio we also had businesses which, while they provided stable cashflows, were highly dependent on ACC and/or DHB funding. This is typified by fixed price, short term tenders and fixed fee bulk funded contracts with almost no opportunity to expand services or enhance earnings.

With the increasing opportunities and significant potential available in other sectors, we made the decision to divest these Hold and Maintain businesses. In January this year, we sold the Orthotic Centre and in May, we sold Aotea Pathology. These sales were no reflection on the calibre of the businesses but rather recognised their limitations under our investment criteria and highlighted where we see our focus for the next decade.

Following the sale of these businesses, our reliance on DHB funding has materially decreased and is now less than 2% of Abano's gross revenues. It also now means that over 60% of our revenue is generated offshore, primarily in Australia.

Dental, audiology and radiology are now our investment focus. Dental and audiology in particular offer significant opportunities for long term growth and achieving considerable scale. Importantly the revenue for these businesses is derived predominantly from private payment by individuals or their private health insurance provider.

Dental is our largest sector, with two wholly owned businesses - Lumino the Dentists in New Zealand and Dental Partners in Australia - providing over 75% of Abano's gross revenue. The trans-Tasman dental market is worth an estimated \$10 billion per year. Lumino is the largest private dental network in New Zealand with 10 -12% market share and Dental Partners is the second largest group in Australia with approximately 1% market share.

We have long term growth strategies in place for both our dental businesses. We have acquired 20 practices in the year to date, providing projected annualised revenues of over \$30 million and eclipsing the amount we acquired last year (\$28.1 million).

CONTINUED OVER

Our Bay Audio joint venture, which has operations in Australia, Singapore, Malaysia and Taiwan, continues to generate improving returns. It is now achieving a consolidated positive monthly EBITDA result and has revenues in excess of NZ\$40 million.

The Australian business, which makes up 83% of audiology's revenues, continues to deliver strong profitable growth. Based on this improving performance, we have opened three new stores in the last twelve months, expanding the Bay Audio Australia network to 35 retail stores plus numerous non-retail locations. Singapore and Malaysia are now EBITDA positive while Taiwan has improved its revenue performance and reduced its losses.

Insight+Ascot Radiology continues to provide improving revenues as demand continues to grow for its high end, specialised imaging services at its five clinics in Auckland. Our investment focus is on filling the increased capacity put in place over the last few years, particularly at the new North Shore clinic and our specialised PET-CT and breast clinics.

Economic conditions and consumer demand in Australia remains sluggish and this is impacting on businesses across a wide variety of sectors. Our management teams in both New Zealand and Australia continue to focus on realising efficiencies within each business, whilst still investing and driving revenues.

We continue to have excellent relationships with our banking partner, ASB Bank, with total facilities of AUD\$85 million and NZ\$50 million. Following the divestments earlier this year, we have both facility and covenant headroom for continued acquisition growth, with over \$47 million of undrawn funds as at end-April 2015.

We are proud of the leadership talent we have within the Abano group and were delighted when Abano's CFO, Richard Keys, was nominated as a finalist in the highly contested CFO of the Year Award. In addition, we were very pleased to have won the Emerging Leaders Best Corporate Communicator category in the INFINZ Awards. We have been a finalist in this Award for three years' running and have won it twice in that time.

## MARKET GUIDANCE: FINANCIAL YEAR ENDING 31 MAY 2015

For the financial year ended 31 May 2015, Abano expects gross revenues<sup>1</sup> to be between \$299 million to \$303 million and reported revenue to be between \$221 million to \$225 million. Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) are expected to be between \$29.1 million to \$30.1 million.

The FY15 results will also include an impairment of goodwill and loss on sale from both the sale of Aotea Pathology and the Orthotic Centre. The loss on the Orthotic Centre is \$0.9 million before including any potential earn out of up to \$600k, which at this stage is not able to be reliably estimated. The estimated impairment charge on the sale of Aotea Pathology is \$8.2 million. Taking these into account, Abano expects to report a Net Loss After Tax of \$(1.3) million to \$(1.9) million.

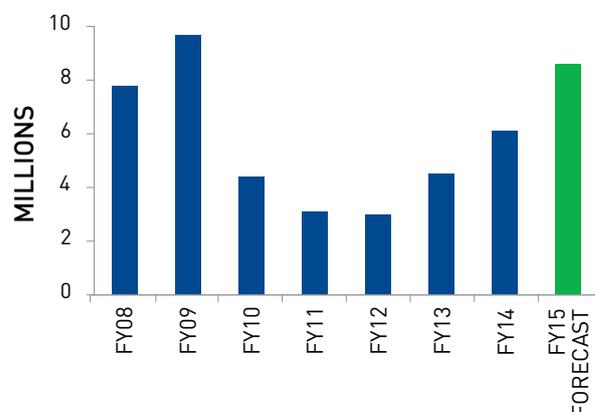
Excluding these one-off, non-cash impairment charges, Net Profit after Tax is between \$7.2 million to \$7.8 million.

Abano also reports on underlying earnings which the Board believes provides a more accurate portrayal of the Company's true performance on a like for like basis with previous years.

It is also the basis for the Company's dividend policy, which remains that, subject to relevant factors at the time, including working capital requirements and growth, the annual dividend paid will be between 50-70% of Underlying Net Profit After Tax.

Underlying EBITDA<sup>2</sup> for FY15 is expected to be \$30.4 million to \$31.4 million, resulting in an Underlying Net Profit After Tax<sup>2</sup> of \$8.3 million to \$8.9 million.

### UNDERLYING NPAT



#### Notes

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

<sup>2</sup> Underlying EBITDA and Underlying NPAT excludes gain or impairment/loss on sale of businesses and items relating to acquisitions and divestments required to be expensed under the International Financial Reporting Standards (IFRS)

	GUIDANCE FY15 \$ MILLIONS	ACTUAL FY14 \$ MILLIONS
Gross Revenue <sup>1</sup>	299 - 303	274.0
Revenue	221 - 225	211.1
EBITDA	29.1 - 30.1	27.8
Net Profit After Tax (before impairment and loss on sale)	7.2 - 7.8	-
Net Loss After Tax	(1.3) - (1.9)	4.9
Underlying EBITDA <sup>2</sup>	30.4 - 31.4	29.1
Underlying NPAT <sup>2</sup>	8.3 - 8.9	6.1

This improved performance was achieved despite the continuing strengthening of the New Zealand dollar against the Australian dollar, which means that year on year performance comparisons are affected by a negative exchange rate movement of approximately 4%.

Abano is continuing to invest in Australian assets through the acquisition of dental practices and, in recent months, through new audiology store openings.

The FY15 guidance is also affected by the loss of earnings following the sale of two businesses in the period – the orthotics business at the end of January 2015 and Aotea Pathology on 1 May 2015.

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).

All dollars are in New Zealand currency unless otherwise stated.

## RENEWAL OF DIRECTORS' SHARE PLAN

Abano's Board has approved the renewal of the existing Directors' Share Plan (the Plan) for a further three years. Under this Plan, 50% of the annual after tax fees for non-executive directors are applied to the purchase of shares, which are acquired on the market on a quarterly basis.

The Plan was originally put in place in 2012 as the Board believes that directors should own an appropriate number of shares in the Company, which further aligns directors' interests with those of other shareholders.

This policy is in line with NZX Corporate Governance Best Practice Code, whereby directors are encouraged to invest a portion of their cash Directors' remuneration in purchasing the Issuer's shares.

As the ability for public company directors to purchase shares on market is constrained by Insider Trading regulations, the Plan provides Abano's directors with access to Abano shares. Purchases are made on-market by Craigs Investment Partners according to a predetermined, fixed timetable.

Fifty percent of participating directors acquire shares in one quarter, and the other 50% of directors acquiring shares in the next quarter, to avoid large numbers of shares being acquired all at once.

# DENTAL

## DENTAL PARTNERS EXPANDS EXISTING PRACTICES

The Dental Partners team is busy working on three major expansion projects for existing practices. These developments are part of a focus on achieving organic growth by increasing the capacity of existing practices.

Calm Dental is located in New Farm, Brisbane and has been part of the Dental Partners network since August 2008. The practice is being expanded to incorporate the next door premises, effectively doubling its size.

When the development is completed in May 2015, the practice will have four new state of the art surgeries, a sterilisation room with thermal disinfecting equipment, OPG xray room, a modern consult room and reception waiting area as well as new office and staff amenities area. This will facilitate an extension of clinical hours and allow dentists to meet patient demand at this inner-city practice.



*Artist drawing of the re-developed Calm Dental practice*

Similar developments at Totally Teeth in Robina and Windsor Dental in Sydney will also double the capacity of these clinics and allow more patients to receive quality dental care.

Progress is continuing on the development of a new national branded identity for the Australian dental group. This is expected to be launched in coming months and rolled out nationwide over the next two years. This national brand will help to create a common identify across our Australian dental network and will provide a number of nationwide marketing opportunities.

## NEW NAME, SAME GREAT SMILES



After being part of the Lumino group for some time, Max + Beresford Orthodontists has rebranded to Lumino Orthodontists Max + Beresford. As part of the rebrand, Lumino Orthodontists Max & Beresford also have a new website [www.orthodontists.co.nz](http://www.orthodontists.co.nz).

Dr Robert Max and Dr Mark Beresford are both highly respected practitioners with a long and distinguished career treating children and adults. They have been based in Remuera for over 40 years and treat patients from all over Auckland.

They also have a new team member, Dr Ross Anning. Ross is a New Zealand-trained specialist orthodontist and has recently returned home to Auckland, having spent the last seven years practicing in the UK. Ross brings with him experience in the latest orthodontic techniques including Incognito lingual braces.

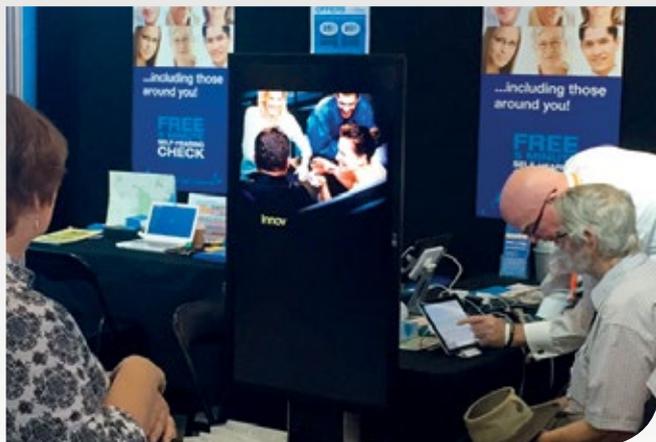
Lumino Orthodontists Max + Beresford is Lumino's first specialist branded practice and early indicators are positive, with strong new patient appointment figures.

  
**Lumino The Dentists**

0800 LUMINO (0800 586466)  
[lumino.co.nz](http://lumino.co.nz)

# AUDIOLOGY

## BAY AUDIO AUSTRALIA RETURNS TO SYDNEY ROYAL EASTER SHOW



An important part of Bay Audio's offer is to provide customers with easy access to hearing testing and solutions. Sometimes this means 'setting up store' in unusual places, such as the Sydney Royal Easter Show.

This is the largest agricultural show held in Australia annually, with more than 900,000 visitors over 14 days.

This is the third year Bay Audio has attended the event and it provides a successful mobile hearing test opportunity. Mirroring the success of the initial two years, a number of people have had hearing devices fitted after testing at the 2015 event.

An essential element in the ability to test people outside of a traditional store or clinic is Bay Audio's mobile touch screening offer, an important lead generation channel for the business.

Bay Audio continues to innovate and make hearing health a mainstream issue in the community, all signs of a great retail brand.

## SUCCESS OF BAY AUDIO AUSTRALIA LEADS TO STORE EXPANSION

Following the improving performance of Bay Audio in Australia, the network of retail locations was expanded in 2014 with the opening of three new stores. In line with Bay Audio's retail strategy, the stores are located in high traffic shopping areas in Corrimal, Shellharbour and Erina Fair in New South Wales.

The early success of the new stores highlights the potential the Bay Audio brand has in the Australian market. Same store sales growth continues to expand as customers show their preference for Bay Audio's retail focused offer.

Now, Bay Audio is planning a further three new store openings over the next few months. Two of the new stores will be in Queensland, with the third in Victoria.



Bay Audio's new store in Shellharbour



1800 229 283  
bayaudio.com.au

# RADIOLOGY

## INSIGHT+ASCOT RADIOLOGY SITE GOES FULLY DIGITAL AS PART OF UPGRADE

Plans are being finalised for exciting new alterations to Insight+Ascot Radiology's Ascot Hospital Plain Film clinic and the CT and MRI reporting facilities.

The redesign of the site will include a new digital, low-dose fluoroscopy unit that also doubles as a plain x-ray room, as well as development of a space that will better facilitate interventional procedures for the CT and MRI suites.

In simple terms, a fluoroscopy unit takes an 'x-ray movie' and is invaluable for interventional procedures, such as arthrograms, where the radiologist uses fluoroscopy as a guide to position a needle into the correct place in a joint before injecting local anaesthetic and/or contrast 'dye', which is visible on x-rays and MRI images. Fluoroscopy is also used for examinations such as barium swallows, to look at a patient's swallowing mechanism in 'real time'.

Other development work at the clinic includes the reorganisation of the MRI entry area for better control and access into the scanner. This will keep Insight+Ascot Radiology compliant with IANZ, the accreditation body.

To streamline image acquisition, the Ascot Hospital clinic will be fully converted to direct digital imaging, with the removal of existing out-dated computed radiography terminals. Wireless transmission of x-rays taken in theatre will also be provided, which allows both the surgeon and radiologist to instantly review images. In addition, the new fluoroscopy unit is fully digital and images taken on this unit will go straight into the PACS system, providing access for clinicians and radiologists.

Building work is scheduled to start in June/July this year.



Insight+ASCOT  
RADIOLOGY

09 520 9550

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



## OUR PEOPLE

### MICHELE HIGGINS CUSTOMER SERVICES MANAGER

Michele Higgins has joined the Insight+Ascot Radiology team as Customer Services Manager. She has extensive experience in customer service and business support across a wide range of industries and businesses, in both local government and large corporate environments.

Michele initially specialised in managing call centres, eventually moving on to running her own consultancy business and becoming quality auditing certified. Her roles involved reviewing and implementing processes in various businesses to enable them to operate more smoothly and efficiently.

Michele sees the role at Insight+Ascot Radiology as an opportunity to apply all her skills to implementing new processes and improvements to a smaller business.

## SALE OF AOTEA PATHOLOGY

On 1 May 2015, Abano confirmed settlement of the sale of Aotea Pathology Limited to Wellington SCL Limited, a wholly owned subsidiary of Healthscope New Zealand Limited.

Aotea Pathology had been a solid contributor to the Abano Group for over 13 years. However, its reliance on short term, fixed price, bulk funded DHB contracts meant a Hold and Maintain strategy had been in place for a number of years. Following this sale, Abano's exposure to District Health Board funding has now reduced to under 2% of gross revenues.

The sale followed Aotea's withdrawal in February 2015 from the tender process for a new expanded regional pathology service, and the subsequent announcement of Healthscope as the provisional preferred provider by the DHBs.

Importantly, the sale preserves the high quality service that the wider Wellington communities have enjoyed for the past 80 years, and allows the DHBs and Healthscope to operate a seamless transition process to the proposed new laboratory service.

It also provides ongoing employment for Aotea's highly skilled and experienced staff under their existing terms and conditions, with the potential for long term employment in the new regional laboratory service.

For Abano's shareholders, it means the estimated impairment charge from the previously announced \$11 million has been reduced to \$8.2 million.

Abano had a 55 percent shareholding in Aotea Pathology, with Sonic Healthcare Limited holding the remaining 45 percent.

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The Dentists

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## KEY DATES

31 May 2015: Financial Year End

By End-July 2015: FY15 Results announcement

By End-August 2015: FY15 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.

### Register to receive ENews

[www.abano.co.nz/news](http://www.abano.co.nz/news)

Register to receive copies of Abano announcements and news as they are released. Scan the QR code to be redirected to the subscription page.



Scan to register for electronic news and updates from Abano

### To update your shareholder details

[www.investorcentre.com/nz](http://www.investorcentre.com/nz)

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.

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