

# Making Contact

ABANO SHAREHOLDER NEWSLETTER

ISSUE SIXTEEN MAY 2010

## Company Happenings //

We are now nearing the end of our 2010 financial year. The last twelve months have seen some significant undertakings including the divestment of our New Zealand audiology business, payment of a special interim dividend and an off market share buy-back, continuing growth of our dental businesses in New Zealand and Australia and a refocusing of our international audiology operations into Australia and Asia. All of this will see Abano continuing into the 2011 year with our proven model of co-investment but with a different organisational look to previous years.

Acquisitions and organic growth have continued in the second half of the 2010 financial year, particularly in our Dental sector which plays an increasingly important role for income generation in the near term. Our radiology businesses in New Zealand also continue to grow and our international audiology businesses in Australia and Asia will be expanding through Greenfield development for the next two to three years.

We were pleased to recently announce a small acquisition of Orthotics South Island, which extends the national footprint of our Orthotics Group, increases the range of services we offer and provides income diversification.

### 2010 MARKET GUIDANCE UPDATE

At the time of the sale of Bay Audiology Limited, we indicated that without Bay Audiology's New Zealand contribution, our second half year performance would be substantially down on our first half performance and below previous years, given we had sold a material part of our business.

We are now in a phase of rebuilding these earnings, primarily through Dental in the near term, while investing in Audiology in Australia and Asia for the medium and long term. Progress in Dental is pleasing in both markets and earnings growth into the second half of the year is strong and positive. Radiology continues to increase revenue and improve its performance.



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## Company Happenings // CONTINUED

All three of these sectors are identified as areas for ongoing investment growth.

Our pathology business is steady, and we are moving to address the renewal of the Capital and Coast and Hutt Valley DHB contract that expires in eighteen months time.

However, Brain Injury Rehabilitation work flow and referrals are markedly down and income has been adversely affected by the ongoing changes at ACC in recent months. We have restructured the Rehabilitation business and we are once again reassessing the range of services we offer. A slow-down in ACC approvals has also been noted, partly in Radiology and to a smaller extent in Orthotics.

Our joint venture Audiology business in Australia expanded with ten new Greenfield stores opened since the beginning of our financial year. However, we paused our expansion in December as we consolidated this rapid expansion of outlets. We also noted a down turn in the Office of Hearing Services (OHS) coupons for hearing devices being approved. This slow down appears to be due to an administrative process change by OHS, which halved approvals in January and February. We have since noted that approvals grew in March and returned to normal levels in May.

We have advised that, before the gain made on the sale of Bay Audiology Limited in New Zealand, our full year ended 31 May 2010, will see revenues of \$175 to \$180 million, operating Earnings Before Interest Tax and Amortisation (EBITDA) of \$18 to \$22 million and Net Profit After Tax (NPAT) of \$4.0 to \$4.5 million.

Following our share buy-back and cancellation offer, which was under subscribed, we now have 4.8 million more shares on issue than we planned. As a consequence our earnings per share will also be lower than planned for the full financial year.

Given this, as well as our strong capital structure, lower than planned levels of debt and our confidence in the mid and long term growth prospects for Abano, we recently announced two initiatives.

Firstly, for the 2010 financial year, we will alter our annual dividend policy of 50% NPAT and now maintain last year's dividend per share for this financial year. This means that a dividend of 21 cents per share will be paid for the full financial year ended 31 May 2010. In November 2009, we declared and paid an interim dividend of 7.3 cents per share, excluding the special interim dividend payment made following the sale of Bay Audiology Limited. The balance of 13.7 cents per share will be paid in August 2010, and carry imputation credits.

Secondly, we will be undertaking an on market, share buyback programme in the months ahead and details of this programme will be communicated after the end of our financial year.

# AUDIOLOGY // UPDATE

## // BAY AUDIO (ASIA)

**The Asian markets offer significant opportunities and the Bay International senior management team has undertaken several market research visits in recent weeks.**

Abano directors, Peter Hutson and Danny Chan, completed extensive market visits and we are now analysing the opportunities identified.

Development of these opportunities will take time and occur mainly through Greenfield openings complimented with small selected acquisitions. The retail strategy for Bay Audio continues in both Australia and Asia, with new stores opened in targeted shopping malls with high foot traffic.

Due to the Greenfield nature of these new clinics, positive profit contributions will only be apparent in three to four years time, as opportunities are developed and the Bay Audio brand established.

## // BAY AUDIO (AUSTRALIA)

### **BAY AUDIO AUSTRALIA'S NEW CALL CENTRE**

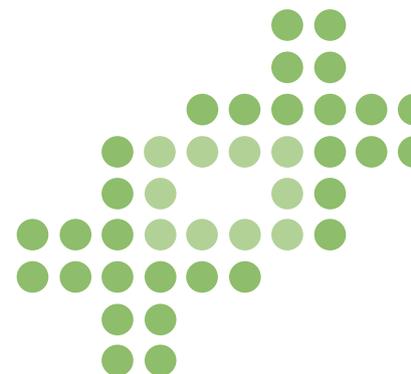
Bay Audio has opened a new dedicated call centre in New South Wales to compliment their other marketing initiatives. This method of reaching people, who may not be aware of Bay Audio's services and solutions for hearing problems, has been a main communication tool for a number of hearing aid chains in Australia.

Bay Audio's in-house call centre is led by Paula Richards. Paula was trained in the US as a Hearing Instrument Specialist while establishing a Florida clinic for hearing testing and hearing aid sales.

Before moving to Australia she established a telemarketing firm in the US, supplying appointments for open house hearing aid sales clinics across the United States. Paula is now an established call centre professional in the Australian hearing industry and is a trained and certified Practitioner for Sound Therapy and Audiometry.



Combining Paula's experience with the other members of her team, the call centre is now working on outbound customer care and retention campaigns as well as handling all inbound calls. The call centre team is also trained at delivering results in customer acquisition campaigns and can qualify and nurture potential customers. Over the next few months the team will focus on prospecting for Demonstration Days and in-store touch screen appointments.



# DENTAL // UPDATE

## // LUMINO THE DENTISTS (NZ)

As well as providing quality dental care through a nationwide network of dental practices, Lumino The Dentists also owns Dental Designs, which offers a fully comprehensive restorative dental service, specialising in aesthetics and implant technology.



At Dental Designs, art and technology is brought together to restore smiles through the creation of crowns, bridges, veneers and implants.

The Dental Designs team uses the latest CAD/CAM and CEREC technology and invests in state of the art equipment. They work closely with dentists to discuss cases and determine the best patient outcome, particularly for cosmetic dentistry. Patients also have the opportunity to visit the Dental Designs laboratory in Auckland for shade matching, further cosmetic consultation or simply to discuss their restoration in more depth.

Knowledge, expertise and a collaborative approach is what sets Dental Designs apart and positions it as a leader in the New Zealand market.

## CLINICAL EXPERTISE

Lumino The Dentists is fortunate to have access to the expertise of a group of senior lead Dentists through a dedicated Clinical Advisory Board. This board meets regularly and assists the Lumino senior management team with strategic initiatives and the clinical development and direction of the group.

The Chairman is a founding member of the Lumino Group and high profile Auckland cosmetic Dentist, Allen Baker. Allen is well known for his role as the Dentist in the television series Ten Years Younger and has a vibrant and growing specialist practice in Remuera in Auckland.



## DENTAL GROWTH

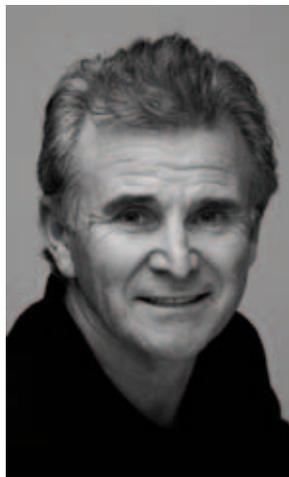
Lumino The Dentists in New Zealand has now grown to 49 practices across the country, with the acquisition of Duncroft Dental in Dunedin in February 2010. This is in addition to the six practices acquired in the first half of the 2010 financial year.

In Australia, a further three practices have been added to the Dental Partners business in the past four months. These include the acquisition of two dental practices in Coffs Harbour and the opening of a new Greenfield clinic in Robina.

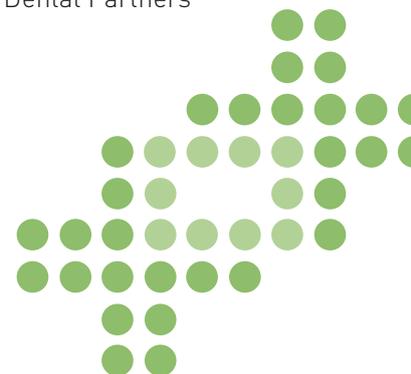
## // DENTAL PARTNERS (AUSTRALIA)

**Following pleasing progress in recent months, Dental Partners is now looking to increase its back office support team and resource to take advantage of the growing number of enquiries from dentists interested in joining the group. In addition, several new support staff have been welcomed recently, including two new Practice Support Managers and two Acquisition Managers.**

With the growth in the size of the team, comes a requirement for more space and the Dental Partners head office will look to relocate to South Port on the Gold Coast later in 2010. In the interim, planning is underway to not only provide office accommodation, but to also create an in-house training facility to assist in the development of Practice Managers and to provide a central resource for all in-house training needs in the years ahead.



As in New Zealand, the Dental Partners management team has put in place a dedicated group of senior lead Dentists to assist in the development of the Australian strategy. This group also meets regularly and plays a vital role in our Australian strategic planning processes. The group is chaired by Derry Rogers (pictured left) a high profile and highly respected cosmetic dentist, motivational speaker and recognised professional development trainer, based in Melbourne. Derry is also a shareholder along with the senior management team in Dental Partners with Abano.



# DIAGNOSTICS // UPDATE

## // AOTEA PATHOLOGY

### NEW CHLAMYDIA TESTING TECHNOLOGY

Aotea Pathology has installed the latest instrumentation for PCR testing of Chlamydia from diagnostic specimens. This new system offers superior stability, decreased invalid results and a faster turnaround time.

### A New System for Molecular Pathology

The Roche Cobas 4800 is a new clinical laboratory system for high throughput testing of Chlamydia trachomatis, Neisseria gonorrhoeae and Human Papillomavirus. Installed in November 2009, this semi-automated system delivers improved efficiency together with high quality medically relevant diagnostic information.

The Cobas 4800 consists of the Cobas x 480 instrument for fully automated sample preparation directly from primary sample tubes and the Cobas z 480 analyser for real-time PCR based amplification and detection. The system is managed by new software which integrates sample preparation, amplification and detection, and allows automated management of results.

### Improved Test Results and Stability

Since the Cobas 4800 system was installed in November 2009, Aotea Pathology has seen a 66% decrease in invalid results due to the improved sample collection device. Additionally, this device allows storage of specimens for up to 90 days at room temperature, which is a benefit to users who previously had to refrigerate all samples.



## // RADIOLOGY

**MRI guided breast biopsy has made what was once the most difficult part of breast cancer diagnosis into an exact science.**

Ascot Radiology in Auckland is home to one of the few MRI guided breast biopsy systems in New Zealand. This has now been enhanced with a recently acquired Suros ATEC™ Sapphire vacuum assisted biopsy machine to make the breast biopsy process as efficient, effective and as minimally invasive as possible. Not only is it used with MRI, it is also compatible with more traditional mammograms and ultrasounds, and is also the only system offering petite needles for small breasted women.

The ATEC™ biopsy machine allows the interventional radiologist to collect multiple tissue samples during one needle insertion by slowly rotating the biopsy device within the breast tissue. Previously, core biopsies required several needle insertions to acquire a sufficient tissue sample. The ATEC™ machine also allows the radiologist to remove the entire lesion when the lesion is less than 8mm.

Some advantages of an ATEC™ biopsy to traditional excision biopsy are that these procedures are less invasive with little or no scarring, can be performed under local anaesthetic, do not require stitches and usually take less than one hour.

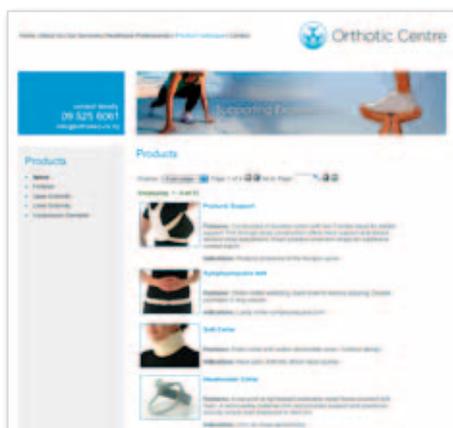
# REHABILITATION // UPDATE

## // ORTHOTICS

A new website has recently been launched for Orthotics Centre New Zealand, providing information for both patients and referrers.

As well as offering leading orthotics services and care, the Orthotics Centre also sells a range of off-the-shelf orthoses to private patients and medical practitioners.

A key part of the new website is the product catalogue which allows easy viewing and identification of the range of orthoses available.



## // ABANO REHABILITATION

Abano Rehabilitation is at the forefront of brain injury rehabilitation in New Zealand, and cares for hundreds of patients every year.

Hone Herewini was 37 years old, a well respected policeman with a young family and a love of rugby. Originally from the Eastern Bay of Plenty, Hone has spent the last two years in hospital and rehabilitation fighting to regain the ability to walk and the return of his independence, following a knock on his head during a friendly rugby game in September 2008.

He was admitted to Abano Rehabilitation's Hamilton facility in January 2010, where he can be close to his whanau. From struggling to move out of his wheelchair when he first arrived, Hone is now standing between two staff and is hoping to be walking under his own steam within the next three months. His goal is to regain the ability to walk so he can go home and be with his children and family.

The involvement of family and whanau in planning and decision making is particularly important in the rehabilitation of patients with traumatic brain injuries. Abano Rehabilitation has recently expanded its facilities in Ohaupo Rod in Hamilton to meet growing demand for both short and long term residential clients from the Waikato region, allowing locally-based family members to visit easily.

Being based in Hamilton makes it easy for family and friends in Waikato and the Bay of Plenty to visit and spend time with their loved ones. Seeing familiar faces and maintaining roles within the family is an essential part of the rehabilitation pathway; and all clients, including Hone, appreciate the time they spend with family.





# Something of interest from Lumino

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