

Making Contact

Abano Shareholder Newsletter

Welcome to issue four of Making Contact, our Company newsletter. This provides an update of corporate events as well as news from each of our operating sectors.

Company Happenings



Alan Clarke
CEO of Abano Healthcare

In our half-year report released in February 2004, we commented on a number of changes in the healthcare and medical services market, and the impact these were having on our operating businesses. These changes included variations in both policy and the structure of Government funding in the services of Aged Care, Rehabilitation and Diagnostics. They are now settling into place and, as a result, we expect to see stabilising performances and a steady

improvement in each of these business areas into the new financial year.

Long term demand for aged care continues to grow, although the **Aged Care** sector saw a short term slowdown in resthome referrals this year, following a shift in the policy making decisions of referring agencies. The Government and referral agencies are promoting an "ageing in place" initiative, based around a philosophy of independent living in the community. The result is that clients are being referred to aged care facilities later in life.

The Government has indicated that an additional 8,500 beds will be required in the next seven years to cater for the needs of our aging population – an increase of 25 percent on current levels. ElderCare, our operating business in the Aged Care sector, has already expanded the number of available beds at the Takanini and Whitianga facilities, with upgrades at two further facilities currently in progress. Plans have been approved to improve and upgrade a further two facilities late this year and a number of proposals are in place to develop and extend facilities to best cater for growing demand in local communities.

The most significant legislative impact on the Aged Care sector has been the introduction of the Holidays Act 2003. While we are pleased that the efforts of our hard working and loyal staff members at ElderCare are being recognised through the Holidays Act, the additional costs associated with this unilateral change are impacting bottom line results.

The second half of the year has seen an improvement in referral figures for our **Rehabilitation** businesses, following a slowdown in the first half of the year due to a restructure at ACC, our largest funding partner. Our business managers and clinicians are working closely with ACC and referees and are confident of improving performance into the new financial year.

The integration of Burtons and Health Partners into Abano Rehabilitation has gone well, and already out-patient referrals are up by 30 percent, compared to the same period last year. We have elected to restructure Abano Rehabilitation to maximise our healthcare offer in this sector. All out-patient growth is now facilitated by Burtons, utilising their well established clinical

systems, with Ranworth Healthcare focusing on in-patient/residential services. In some areas, we offer both service streams through Ranworth as we have well established practices and the support of the local referring agencies.

The **Diagnostics** sector is performing according to plan and senior management are working closely with local General Practitioners (GPs) and DHBs to ensure all people in need have access to appropriate pathology and diagnostics services. The Government has recently announced its plans under the new PHO (Public Health Organisation) initiative and all community laboratories, including Abano Diagnostics, have been involved in a consultation process. The initiative will bring both opportunities and challenges as the GPs mainly involved in the referral of these services identify the targeted communities that will be the main recipients.

The Government wants to ensure that identified, in-need populations are receiving the right level of healthcare, including greater access to the early diagnosis of disease in the community. However, this targeting will encourage GPs to utilise a "normal level" of medical care for these targeted groups. Laboratories and other support diagnostic services will be working closely with these PHO general practice groups in coming months to identify the appropriate normal levels of diagnostic care.

The level of investment into infrastructure and software in the **Dental** sector has been increased, to ensure long term benefits are maximised. Good progress is being made on the Dental sector strategy and the rollout of new branches is beginning to accelerate. Several new dentists have joined the group and new marketing campaigns are being implemented. The branch established at the University of Auckland in 2003 has proven successful, with a high level of acceptance and use from the local student and faculty population.

The three mobile dental surgeries are all operating and there is a growing demand for their services with on site corporate appointments. The core market is the growing school programme, and we hope to expand the services offered in coming months.

Overall, the changing environment associated with changing Government policy, is presenting both challenges and opportunities and we believe the current soft performance will continue for the remainder of this current financial year. However, we are now seeing a steady improvement in performance across all our businesses, as structural changes settle into place and as we adjust our operations and services to meet new policy requirements.

We are confident of our underlying business strategy and the future positive gains to be made in each of the sectors in which we operate.

Dental



SMILING WITH THE HIPPOS

"No more boring models with American good looks and shiny white teeth; it's hippos for us", announced Gale Wieland, business manager for Geddes Dental Group.

Late in 2003, Geddes launched a new brand identity, which can now be seen on all its marketing and communications material. The hippo, shown with its mouth wide open and teeth protruding, is the new surprise element in the Geddes brand campaign.

"We wanted to create a brand identity that would stand out from other dental brands", says Gale. "As well as making people smile, the use of the hippo will help people to remember our brand next time they need a dentist".

As part of the brand campaign, Geddes Dental Group has sponsored the Hippo River at Auckland Zoo. The three year sponsorship gives Geddes Dental Group naming rights to the enclosures along the river, as well as sponsorship of Faith and Fudge, the Zoo's hippos.

This sponsorship, says Gale, adds value to the use of the hippo for the brand and aligns Geddes to its Auckland heritage connection. It also offers Geddes an opportunity to co-promote with other leading sponsors.

Starting May 10th, Geddes commenced a radio campaign on Classic Hits and ZB Talk radio. The campaign is aimed at lifting the Geddes profile within the dental sector, and bringing back top of mind awareness to the general public.

BUSINESS UPDATE

The new Software of Excellence IT system is now in the final stage of implementation and positive benefits are already being seen by both Head Office and the 11 practices Auckland wide.

The emphasis for Abano Dental in the next 12 month period is on company growth, and management will continue to focus on acquisitions, with a strategy in place to attract new practices to the Abano Dental sector.

In addition, Geddes Dental Panmure is moving premises to a prime corner site on the main street of the Panmure shopping district. The new branch will have a significantly improved presence in Panmure and is expected to provide increases in the number of private patients seen at the Practice.

Diagnostics

NEW SENIOR MANAGER

Keiry Belton has been appointed as the new laboratory manager for Medical Laboratory Wellington and will be responsible for the day to day running of the laboratory.

Keiry has had a successful career founded in medical laboratory science and spanning 20 years in technical and supervisory roles in hospital and community medical laboratories and veterinary laboratories in New Zealand, the UK and USA.

She has spent the last eight years in senior health sector management roles with responsibilities encompassing business strategy and planning, operations, people and financial management and relationship management.

OLYMPIC SPONSORSHIP

Medical Laboratory Wellington is very proud to be a regular sponsor of 21 year old George Bridgewater who has recently been selected to represent New Zealand at the Athens Olympics in the rowing pairs with Nathan Twaddle of Auckland.



George began his rowing career in 2000 in his seventh form year at Wellington College when he first picked up an oar to row in the Wellington College rowing crew. Medical Laboratory Wellington was approached to sponsor the team at that time. Since then, the company has sponsored George in a number of international rowing competitions. Last year he was sponsored at the World Championships in Milan where they qualified for the Olympics. George's mother, Philippa, works at Medical Laboratory Wellington in the Microbiology Department. All staff at Abano Healthcare will be watching George in Athens with anticipation.

Aged Care



FACILITY UPGRADES AND EXPANSIONS

A new 20-bed specialty dementia unit opened its doors at Takanini Lodge in March this year. The brand new, purpose built facility makes Takanini Lodge the largest provider of dementia care in South Auckland and means that people will no longer have to be cared for outside of the area.

Although many people with dementia are able to stay in their homes or with family, a specialist residential care facility provides a safe, caring environment with skilled staff who understand and are able to care for those with more severe forms of dementia.

The Ministry of Health opened up fifty beds for proposals in January last year and the contracts were highly sought after. Takanini Lodge received ten of the new bed contract and, along with their existing ten beds, now operate a twenty bed specialist unit.

PROMOTING INDEPENDENT LIVING STUDY

The joint research study with the University of Auckland, PILS, is reaping outstanding results with residents at ElderCare homes. The Beach Walkers are a group of eight residents from Greenvalley Lodge, aged between 73 years and 92 years. Before

commencing the PILs programme, one of them couldn't walk more than four metres, another couldn't walk in a straight line or for more than seven metres and a third had fallen previously and was losing her confidence. Included in the group was an 84 year old, who is legally blind and a high falls risk.

The group's aim was to 'walk' the Round the Bays and the results were outstanding, with all participants walking from Mission Bay to St Heliers, walking sticks, walkers and all. All participants now have a significantly improved quality of life, with more confidence, higher self esteem and the ability to walk and move around more on their own.

Staff have taken the programme on board and both care givers and families are often surprised at what is being achieved.

Rehabilitation

ORGANISATIONAL STRUCTURE

Two of Ranworth Healthcare's facilities in the South Island have been rebranded as Burtons Healthcare and Health Partners. The emphasis has now moved away from providing residential care in these areas, to offering rehabilitation treatment and support where it is needed – in the home, community, workplace or school. Burtons is able to offer a wider range of ACC contracts and services to meet demand in these areas.

In the 2002/03 financial year, ACC spent approximately \$113 million on serious injury claims in New Zealand. Of the seriously injured claimants receiving payments, 49% had brain injuries (from mild to serious) and 44% had spinal injuries. Spinal cord injuries can be caused in a number of different ways – sporting, car accidents or assaults are the most common, whereas traumatic brain injuries are mainly caused in motor vehicle accidents.

The organisational restructure follows a review of the demand for particular services in different regions. The focus for Abano Rehabilitation is on enhancing existing residential services and increasing the scope of service in assessment and treatment, with the three complementary businesses working together to provide maximum benefit to the customer and stronger business synergies.

NEW MANAGEMENT STRUCTURE



Juliet Harper

Abano's Rehabilitation sector has undergone an organisational restructure, with the appointment of Juliet Harper as operations manager. Juliet's responsibilities include day to day management of the rehabilitation businesses and she reports directly to the general manager, Karen Schneller.

Juliet Harper was previously operations manager for Burtons Healthcare and Health Partners and managed the growth of the business from four branches to seven nationwide. She has a background of over 12 years experience in allied health and has a Masters in Business Administration.

Healthcare Market Update

THE IMPACT OF EMPLOYMENT LEGISLATION

On 1 April 2004, the Holidays Act 2003 came into effect. This new Act changes the entitlements available to employees in areas such as annual leave, sick and bereavement leave (formerly special leave), public holidays and an employee's rights in the workplace.

Under the Act, an employee is entitled to time and a half for the work that they are required to do on a public holiday. It doesn't matter whether the employee is paid on a salary, wage, or piece rate basis. If the day would otherwise be a working day (the employee normally works on the day that the public holiday falls) the employee will also be entitled to an alternative holiday on pay (previously known as a day in lieu).

In addition, amendments are being proposed to the Employment Relations Act 2000. Many businesses believe that these changes would lead to increased salary and compliance costs arising from the legislation, as well as the removal of rights for employers to be able to control their cost of employment.

The nature of medical and healthcare businesses, in particular, Aged Care, is such that salary and wage costs often represent around 50 to 65 percent of total revenue. Therefore, any increases in the cost of employment impacts on the financial viability of these businesses. The services offered are not discretionary, and supply of care cannot simply be withdrawn, reduced, curtailed or scaled down to reduce costs.

Volume is also capped and additional costs cannot be recovered by simply selling another bed to a client. The Government, and its health funding agencies, are a major revenue provider for many healthcare and medical businesses. Fees for services are at a set level and businesses cannot simply increase pricing to cover additional staffing costs.

In the Aged Care sector, in particular, the ability to increase costs is currently very limited. The current split between private fee payment and Government funded clients is 40% private and 60% Government funded. The removal of asset testing will require the Government to fully fund the industry and, therefore, set the price paid for all aged care facility beds. The majority of Government funding in this sector has not received a price increase for over seven years, with the exception of a small cost of living adjustment in 2003, and some small increases for specialist services, and is substantially below recommended levels.

This has resulted in many operators increasing private fees to effectively subsidise the Government funded clients. However, under the Social Security Regulation, the amount a private client can be charged is also capped, regardless of the accommodation provided or the willingness of the client to pay more. This rate has been unchanged for ten years, regardless of the fact that the Government's agreed fee structure exceeds this level.

The removal of asset testing means the percentage of clients who are Government funded is expected to increase from 60 to 90 percent in the first year alone. Unless Government funding is increased to cover existing costs for every client, businesses in the Aged Care sector will become financially unviable and close down.

At Abano Healthcare, staff are our key asset and we greatly value their input, loyalty and commitment to the clients they care for 365 days of the year. The importance of having a highly motivated, caring, qualified and capable workforce is of paramount importance to the success of our businesses.

Like many responsible employers, we try to enhance the quality and abilities of our workforce, but cannot provide unlimited wage or salary increases, due to the restrictions on our pricing, fee levels and funding. The industry is already under economic pressure, with the increased costs of caring for an older, frailer and often sicker population that is increasing in size year on year, and any changes in legislation that results in increased costs, are unsustainable.

We are currently discussing our concerns with the Ministry of Health, local DHBs and the Government, to ensure all New Zealanders have access to quality care and treatment from successfully viable businesses across the healthcare and medical sector.

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