

## ANNUAL MEETING

**MANAGING DIRECTOR'S ADDRESS: ALAN CLARKE**  
**8 OCTOBER 2009**

### Managing Director's Address

Thank you for the opportunity to address you today.

As you can clearly see I am not able to be with you in person today. I am hoping however, technology willing, to be joining the Annual Meeting for questions, following my recorded address, via video or telephone conference. The reason I am not with you, is an important promise my wife and I made to our daughter Emily, almost two years to the day in October 2007, when she was in ICU at Starship Children's Hospital after suffering a heart attack at the age of 12, following an undiagnosed cardiac myopathy. I am very pleased to say she is now 14 and doing very well and we will all be in Italy on the date of our AGM, fulfilling that promise.

Today, I would like to talk with you about our company's operations during the 2009 financial year and our future direction.

As you will have heard in more detail from Alison, we have been offered the opportunity to sell our NZ Audiology businesses. During our investor roadshow in early September, we had many shareholders asking us about what Abano will look like following the sale of this business. This was a great opportunity to share with them our future vision for the company, which will see us continue our successful track record of improving financial performance and business growth. Today, I will be sharing this vision with those of you who are here with us at the annual meeting.

### Our Businesses

Abano has a strong portfolio of businesses, and 2009 saw us expand globally as well as grow our core businesses in audiology, dental and radiology.

Our audiology sector operated through the Bay brand in New Zealand and Australia, the Sountex brand in Singapore and Malaysia, and Dynasound in Hong Kong. Our model is that of co-investment with the founders of the Bay group, including Peter Hutson, who own 30% of our Audiology operations. Selected senior Audiologist management leaders also hold small local shareholdings in the markets for which they are responsible.

In Dental, we operated through Lumino the Dentists in New Zealand, and we now have a growing national chain with clinics from Whangarei to Dunedin. In August last year, we were approached by a group of Gold Coast based dentists to form a 70:30 joint venture with them in Australia. We agreed and entered the Australian market in June 2008. We now have a growing presence, with clinics on the Gold Coast and Southern Queensland, Northern New South Wales, Sydney, Canberra, Melbourne, and most recently, Adelaide.

Our Diagnostics sector consists of two groups - Radiology and Pathology. In Radiology we have a co-investment equity partnership in Ascot Radiology and Greenlane Imaging, with three clinics in Auckland. We also have a similar equity partnership with the founder of

Insight Radiology, which is a specialist obstetric ultrasound group with two clinics in Auckland. In Pathology, we have a joint venture with Sonic Healthcare through Aotea Pathology in Wellington, where we hold a five year contract for the region's community pathology services for two District Health Boards.

Finally Rehabilitation, with two businesses in this sector - The Orthotic Centre and our Brain Injury Rehabilitation Group. The Orthotic Group provides Orthotic services to all the public hospitals in Auckland Hamilton and Wellington as well as serving the needs of ACC and Private clients in those centres. The Brain Injury Group operates assessment, residential and out patient services and clinics throughout the North Island.

### **Key Events in the 2009 Financial Year**

2009 was another very busy and productive year.

Key highlights and successes included the continued growth of our audiology businesses in both Australia and New Zealand, and our entry into the Asian audiology market.

We also continued to grow our dental network in NZ and entered the Australian dental market. In Radiology, we opened a second, state of the art clinic for Ascot Radiology and invested in new technology including two new latest generation MRIs. We also acquired a majority interest in Insight Radiology.

### **Other Events Following End of Financial Year**

A number of events have occurred since year end, including further acquisitions in dental and audiology, and entry into the Malaysian audiology market through the acquisition of two stores in Kuala Lumpur.

However, of most interest to you all, I am sure, we were approached by Crescent Capital, and negotiated the sale of our New Zealand audiology operations, to National Hearing Care, a company associated with Crescent Capital. Alison has already discussed the details with you. I fully support the Board's recommendation to shareholders to approve the transaction for the sale of Bay New Zealand.

I would now like to take a few minutes to look at the performance of each of our sectors in the 2009 financial year before moving onto our vision for Abano into the future.

### **Audiology Sector 2009**

For the 2009 financial year, Abano owned audiology businesses in New Zealand, Australia and South East Asia. Revenue from the audiology sector grew by just over \$18 million to \$62 million, an increase of 43 percent, and operational EBITDA increased by 23 percent to \$15.9 million.

Bay has a retail focused business model, and predominantly operates through 'walk-in' audiology stores in retail and shopping mall environments. We also offer the unique self assessment Touchscreen technology, which removes the pressure on customers to make an appointment and is ideally suited for retail and shopping mall environments. This model differentiates us from many other providers who predominantly offer their audiology services through a medical centre based model.

Following the sale of Bay Audiology in New Zealand, our focus will be on growing our audiology businesses in Australia and Asia, both markets with large populations and significant untapped potential.

### **Dental Sector 2009**

Abano has two businesses in the dental sector, Lumino The Dentists in New Zealand and Dental Partners in Australia. In 2009, these businesses generated revenue of \$68.1 million, up 150 percent on the previous year, and an EBITDA of \$7.4 million, an increase of 236 percent year on year.

A "roll-up" strategy is in place for both of Abano's dental businesses, where continued growth by acquisition increases the scale of each group to cover the relatively fixed cost of the central overhead infrastructures.

### **Diagnostics Sector 2009**

Abano's Diagnostics sector includes Aotea Pathology, a medical diagnostics laboratory in Wellington, and two radiology businesses in Auckland. The businesses provided revenue of \$35.6 million or 19 percent of Abano's group revenue in 2009, and an EBITDA of \$7.1 million.

Abano has a 55 percent shareholding in Aotea Pathology, a joint venture with Sonic Healthcare. The business is into its third year of a five year \$102 million fixed-price contract for community pathology in the wider Wellington region with a stable management team, a newly merged laboratory and effective systems in place.

In Radiology, Abano owns 73 percent of Ascot Radiology which operates from three sites in Auckland, and 80 percent of Insight Radiology, a specialist obstetric radiology clinic with two clinics in Auckland, which was acquired in November 2008. We also invested in new technology and equipment, including two new 3T MRIs and a new 4D ultrasound.

### **Rehabilitation Sector 2009**

Our fourth healthcare sector in 2009 was Rehabilitation. Abano owns business in Orthotics and in Community and Residential Brain Injury Rehabilitation, both of which are Hold and Maintain business streams. These businesses provided 11 percent of Abano's revenue in 2009, a total of \$21.3 million, and generated an EBITDA of \$2.9 million.

Orthotic Centre NZ is the country's foremost supplier of orthotic services and specialist products. Clients range from children to baby boomers, athletes to everyday people. Abano Rehabilitation consists of three aligned businesses providing assessment services, residential rehabilitation and supported accommodation, particularly for those with brain injuries, and clinical intervention to community based clients.

Both businesses operate in a fixed price environment and revenue is 99 percent funded by ACC and MOH.

### **Three Year Strategic Plan**

So as you can see, the 2009 financial year was a very successful and busy one, but a lot has happened since then. I am sure the question from most people here today is, where is Abano going to from here?

## **Future Growth Strategy**

Let's have a look at where we go to from here. We are going to concentrate into three of our existing healthcare sectors. Firstly, Audiology in Australia and Asia; secondly Dental in New Zealand and Australia and lastly, Radiology in New Zealand.

We will also continue to run our rehabilitation sector under a hold and maintain strategy.

## **Audiology**

Firstly, Audiology. We believe there is great potential in the audiology market and our future audiology growth strategy will be carried out through Bay International, and our key brands of Bay Audio in Australia and Sountex and Dynasound in Asia.

## **Bay Audio Australia**

Our Australian audiology business, Bay Audio, has now been going for two years.

Our clinics are concentrated in Southern Queensland and Northern NSW, with recent entries into Sydney and down into Victoria.

The distribution into the Australian market is quite different to New Zealand. There are a number of chains.

On the left hand end of the graph, you can see National Hearing Care. That is the Crescent Capital company that is looking to acquire Bay New Zealand.

The red bar is Bay Audio with 20 permanent clinics.

The funding mechanism in Australia is also quite different to New Zealand. Australia operates the Office of Hearing Services. This is a Government agency where, as an Australian, you have the right to access a \$1,000 hearing aid and you can elect to make a top up payment to upgrade to another product that may suit you better.

With a population more than five times bigger than that of New Zealand and a market size estimated at over AUD\$900 million, Australia offers considerable opportunity for Bay Audio.

Our future growth strategy is on Greenfield site openings in popular retail malls and shopping centres. While Greenfield sites are generally cash negative during the early start up months, they have good return on investment over time as each store moves out of its start up phase.

Over the next twelve months, we will be focusing on the development of more retail oriented marketing initiatives and the continued rollout of retail sites in large shopping centres. We will invest in our systems and staff to ensure a strong operational platform remains in place to support the demands of this growing business.

## **Bay Audiology in Asia**

Now let's look at the opportunities before us in South East Asia. Bay Audiology in Asia was established through a small investment in several clinics in Hong Kong and Singapore in late 2008, with a further two clinics acquired in Malaysia since the end of the financial year. These clinics operate under the Sountex brand in Singapore and Malaysia and under the Dynasound brand in Hong Kong.

I'd now like to take you through some presentation material which has been generated from Siemens, our strategic regional partner, to demonstrate why we have decided to enter this market.

This pie chart represents all the people in the region who have a diagnosed hearing loss or are predicted to have a diagnosed hearing loss. The very thin little red line, down at the bottom, is the number of people in New Zealand with a diagnosed hearing loss. That is the market that Bay Audiology operates in.

Around 7.8 million hearing aids are sold each year. Of these, 1.2 million are sold into the Asia Pacific region. The European theatre and North Americas, are where most of the hearing aid manufacturers are concentrated and where the other audiology chains are dominant.

This table shows a sample of countries in the Asia Pacific region. You will notice that the penetration rates into the region are up to 4 percent in some countries but as low as .05 percent in others. In New Zealand and Australia, the penetration rate is between 20 and 25 percent. That means 20 to 25 percent of the people who have a diagnosed hearing loss have a hearing aid. So you can see that, comparatively, the penetration rates into these Asia Pacific markets are extremely low.

The next question is, can these populations afford hearing aids? If we look at the GDP per capita line, you will notice that the GDP per capita ranges from US\$29,000 to \$34,000 per person in these countries. We need to remind ourselves that New Zealand's GDP per capita is now US\$19,000 per person. So the average taxi driver in Singapore and in Korea and in Hong Kong probably earns more than the average New Zealand middle manager. So we have a market that can afford to buy hearing aids, that has big populations and that is very underserved.

As you can see, there is significant potential in the Asian market. Let's look at a case study, China.

This graph shows the impact of baby boomers. We've talked about baby boomers before at these meetings. In China, this is the result of a one child policy. The number of people over the age of 65 and indeed over the age of 85 is going to grow exponentially in this market and there are going to be a vast number of retirees very dependent on very few workers. This will be an enormous problem for the Chinese. The Chinese government estimates that the number of people with a hearing loss is around 20 million...Siemens and ourselves estimate that there is around 120 million people with a hearing loss in China.

This slide shows the distribution system where currently the hearing aid manufacturers distribute their products into the Chinese market. You will notice that there are 10 audiologists in the whole of China with a population of 1.3 billion.

Each of these points of distribution is relatively unsophisticated. They are basically electronic stores where the hearing aid products are sold with a variety of other electronic goods. The hearing aid manufacturers don't like this at all. They spend billions on research and development and then they have to put their products into these very unsophisticated distribution systems. That's why, when they see the quality of what has been created through the Bay chains in NZ, in Australia and into Asia, they are very excited at the opportunity it presents for them to take their products into these regions. And that is why we formed a strategic partnership with the Siemens Hearing Group.

## **Dental**

Dental is another key growth area for Abano. The combined NZ and Australian dental market is worth over NZ\$6 billion, more than four times bigger than the audiology market, and there is significant potential to grow both dental brands.

The future focus is on growing each network and increasing margins and returns. Investment capital facilities are available for growth through ASB Bank in New Zealand and through a dedicated ring-fenced facility from CBA in Australia, solely for the growth of the Dental Partners business.

## **Lumino The Dentists**

Lumino The Dentists is the largest private dental network in New Zealand with a network of 42 practices as at the end of the 2009 financial year.

As you can see from the map, there is still a great deal of potential growth. We have around 42 clinics and we are growing at around nine clinics per annum. The financial model is starting to work as you would have seen from the growth in EBITDA to revenue, and the opportunities in front of this business are significant. It is a strategy that we will continue to roll out, with a fantastic team.

## **Dental Partners**

During the course of the year, we announced our entry into the Australian market. As I said earlier, we were approached by a group of dentists and experienced managers and we formed Dental Partners, a joint venture in Australia.

That business is now 12 months old and we have 22 clinics, concentrated in southern Queensland, down into NSW, Sydney, Canberra, Melbourne and most recently into Adelaide. We are absolutely delighted with the way this business has tracked over the last 12 months and between ourselves and our partners we will be accelerating the business and accelerating our presence into the market.

There are three or four other dental consolidators in Queensland, NSW and Melbourne. Each of them has a slightly different model to ours and we believe that the opportunities are significant. You will notice that Australians spend \$4,500 million each year going to the dentist. There are over 9,000 dentists and over 3,000 clinics.

## **Diagnostics**

Our third business sector will be diagnostics in radiology and pathology.

## **Radiology**

In radiology we have two primary brands – Ascot Radiology and Insight Radiology. These are both Auckland based companies with an enormous amount to do nationwide.

Radiology is a very small presence that has grown very well and we are very pleased with our return on investment. In fact, EBITDA to revenue ratios in radiology are the highest in the company.

We operate a co-investment model where we have radiology partners that work with us. The opportunities to expand that model and to grow through NZ are significant. We do

not see that we will take this sector off-shore but will concentrate our activities into NZ over the next few years.

### **Pathology**

Now, let's look at pathology. Aotea Pathology is a fantastic business. It is Wellington based and a joint venture with Sonic Healthcare.

Regrettably this business is completely reliant on DHB contracts. We have around two years to run on the current contract and, until such time as we can negotiate with the Government or the DHBs change the policy and Darwinian tendering regime that they have in place, we simply cannot extend our footprint in this market. We are very hopeful that there will be a change and we are very hopeful that we will re-secure the contract in two years time.

### **Rehabilitation**

Our rehabilitation sector also has a hold and maintain strategy.

### **Abano Rehabilitation**

Abano Rehabilitation consists of three aligned businesses providing assessment services, residential rehabilitation and supported accommodation, particularly for those with brain injuries, and clinical intervention to community based clients. The sector operates in a fixed price environment and revenue is 99 percent funded by ACC and MOH.

Abano's Rehabilitation businesses are well run and provide solid, consistent revenue streams. However, due to the fixed price nature and public funding of this sector, significant growth opportunities are limited.

### **Orthotic Centre**

Orthotic Centre NZ is the country's foremost supplier of orthotic services and specialist products.

This business operates through three locations – Auckland, Hamilton and Wellington, where we are the orthotics department in the public hospital. In addition, there is an ACC component but largely it's DHB funded. Again, another professional, well run business limited by market size and by the contracts it holds.

### **Going Forward**

So, in summary:

We've got three very good business sectors to go forward with - audiology in Australia and into South East Asia, dental into New Zealand and Australia and radiology into New Zealand.

We will continue to run our rehabilitation sector under a hold and maintain strategy.

Our model of co-investment has a proven track record of success.

The opportunities in front of us are significant and we believe that these businesses will hold fantastic return on investment and growth opportunities for Abano in the years

ahead. We believe there are significant growth opportunities in Audiology in Australia and Asia, in Dental in New Zealand and Australia, and in Radiology in New Zealand. We already have strong and successful business operations in these sectors and they will be a key focus for growth in the next three years.

Our vision for our company is backed by a strong strategic plan, and proven management personnel. We are looking forward to an exciting future as we continue to grow into a leading global investor in, and provider of, healthcare and medical services.

Thank you for listening.