

# MAKING CONTACT

## ABANO SHAREHOLDER NEWSLETTER



Richard Keys  
Chief Executive Officer

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### FROM THE CEO

The 2017 financial year is now coming to a close and we are pleased to report that positive progress continues to be made in all our businesses.

Our dental networks are continuing to expand across Australia and New Zealand, as we grow through the acquisition of dental practices, greenfield development and organic growth. We are also seeing ongoing increasing demand for Ascot Radiology's high end modalities.

We recently provided guidance for the 2017 financial year and confirmed that a strong year on year uplift in financial performance is expected, in line with the forecasts provided in the Grant Samuel independent report in December 2016.

The results for the previous FY16 year included Abano's 50% shareholding in Bay International, which was sold at the start of the FY17 financial year. On a like for like basis, excluding the divested audiology business and gain on sale, Underlying NPAT for the continuing businesses is expected to be up by at least 32% on the previous financial year, to between \$10.7 million and \$11.5 million.

This demonstrates the strong ongoing performance of our dental and radiology businesses and we expect to achieve our target of delivering long term growth in Underlying Earnings Per Share greater than 15% per annum.

### TRANS-TASMAN DENTAL GROWTH CONTINUES

Dental remains our primary growth opportunity and we are targeting a 10% share of the \$11-billion revenue trans-Tasman dental market. We have acquired 26 practices in the financial year to the end of April, growing our trans-Tasman group to 205 practices. This includes merging 18 practices into nine locations, as part of our ongoing strategy to realise operational efficiencies and maximise capacity across our networks.

We were also pleased to recently announce our third greenfield location in New Zealand with a new, fully digital and purpose built greenfield practice currently being built in Rangiora. Lumino now has a brand recognition of over 85%, which assists in building a customer base in new locations such as Rangiora, which have been selected due to their location and demographics. The long term financial return on greenfield locations in New Zealand is similar to an acquisition, and it allows us to locate practices in areas which are not well serviced for dental care.

We are continuing to invest into growing and developing our businesses, particularly our trans-Tasman dental group which is benefiting from economies of scale and increasing market share. The advantages of belonging to a corporate dental group are becoming more widely understood and, with Abano's positive reputation and workplace culture, we are seeing an increase in our acquisition pipeline.

#### **MAVEN DENTAL BRANDING ROLLOUT ON TARGET**

Abano's Australian dental practices are being progressively rebranded to Maven Dental Group, and we are on track to achieve our target of having more than half the network branded by financial year-end. This provides a platform for Maven to run network-wide marketing campaigns, and we launched the first of these, an 18 months' interest free offer, in March this year. Momentum is now building, with radio advertising and digital media driving new and existing patient visits.

#### **FINALIST FOR COMMUNICATIONS AWARD**

For the fifth year in a row, Abano was named as a finalist in the Emerging Leader Best Corporate Communicator category at the INFINZ Awards. This is a reflection of our ongoing focus on providing transparent and timely communications to ensure our shareholders are well informed, particularly during events such as the recent failed partial takeover attempt.

#### **OUR PERFORMANCE MEASURES**

To help our shareholders better understand our business, in our newsletters, we will be providing further information and explanations on the metrics that we use to measure and monitor performance, as well as more detail about our strategy.

We welcome feedback from shareholders and our contact details can be found on the back of this newsletter.

**Richard Keys**  
Chief Executive Officer

Abano has identified three elements which it believes are essential for the ongoing growth and success of the company and which are driving strategic initiatives – **PEOPLE, TECHNOLOGY** and **CUSTOMER EXPERIENCE.**

#### **FULL YEAR GUIDANCE**

The FY17 guidance announcement was released to the market on 9 May 2017 and can be viewed on the Abano website at [www.abano.co.nz/news](http://www.abano.co.nz/news).

- Abano confirms it is on track to achieve results for the FY17 full year in line with the forecasts provided in the Grant Samuel independent report in December 2016.
- Dental growth is continuing, with increased interest from dentists and a stronger acquisition pipeline.
- NPAT is expected to be up by over 27% and Underlying NPAT is expected to be at least 32% ahead of the previous year, excluding the divested audiology business. This demonstrates the strong ongoing performance of Abano's dental and radiology businesses.
- Maven same store revenue trend has improved and was (4.5)% for the year to date, with Lumino same store revenue of (1.5)% impacted by higher than normal leave taken and replacement of retiring senior dentists as part of Lumino's succession planning.
- The guidance excludes approximately \$0.6 million of outstanding costs associated with the failed takeover attempt by Healthcare Partners which are recoverable by Abano under the Takeovers Code.
- Abano's dividend policy remains that, subject to relevant factors at the time, including working capital and growth, the annual dividend paid will be between 50 and 70% of Underlying NPAT. The current expectation is that the final FY17 dividend will be at least equal to the FY16 final dividend of 20 cents per share.

\$ MILLIONS	FY17 GUIDANCE	FY16 ADJUSTED FOR SALE OF BAY INTERNATIONAL	ACTUAL FY16
Gross Revenue <sup>1</sup>	277 – 281	256.9	297.1
Revenue	231 – 235	213.7	213.7
EBITDA <sup>2</sup>	30.7 – 31.9	26.6	26.6
Underlying EBITDA <sup>3</sup>	31.5 – 32.7	27.2	27.2
NPAT	9.7 – 10.5	7.6	28.4
Underlying NPAT <sup>3</sup>	10.7 – 11.5	8.1	8.8

## LEGAL ACTION TO RECOUP TAKEOVER COSTS

Abano has incurred over \$1 million in costs in relation to Healthcare Partners' failed, hostile partial takeover attempt. This is a company associated with Peter and Anya Hutson and James Reeves. In January 2017, Abano retained the 2017 interim dividend of approximately \$523,000 payable to Healthcare Partners which was set-off against a portion of the unpaid costs.

Abano has recently commenced legal action to recoup the outstanding unpaid costs of approximately \$566,000. Following this, Healthcare Partners has counter-claimed, seeking an order for payment to it by Abano of the January 2017 interim dividend amount.

Despite Abano already having provided significantly more detailed breakdowns of costs than is normally provided in such claims, Healthcare Partners continues to dispute every invoice and expense, including those relating to the independent report prepared by Grant Samuel, communication, share registry and even minor expenses such as printing and postage.

In addition, Healthcare Partners continues to request unreasonable items of additional information including records of all verbal and written legal advice provided to Abano in relation to responding to the failed partial takeover.

Abano understands that the level of detail being demanded is far beyond anything that has been required in any other failed takeover attempt of a listed entity since the Takeovers Code has been in force. The Abano Board sees these requests from Healthcare Partners as disproportionate, unreasonable and simply an excuse to avoid or delay payment and notes that their actions continue to be costly and disadvantageous to Abano shareholders.

The full announcement can be read on the Abano website at [www.abano.co.nz/news](http://www.abano.co.nz/news).

<sup>1</sup>Gross revenue is a non-GAAP financial measure and includes Australian dental revenues before payment of dentists' commissions.

<sup>2</sup>EBITDA is earnings before interest, tax, depreciation and amortisation and is a non-GAAP financial measure.

<sup>3</sup>Underlying earnings are reported for both NPAT (a GAAP compliant measure) and EBITDA and exclude gains/losses arising on sale of businesses, IFRS adjustments and impairments, including their tax effect. Both measures are reconciled back to reported NPAT. It is the measure used within the Company to evaluate performance, establish strategic goals and to allocate resources. More information on gross revenue and underlying earnings is available on the Abano website at [www.abano.co.nz/underlyingearnings](http://www.abano.co.nz/underlyingearnings).

## KEY DATES

31 May 2017: Financial Year End

By end-July 2017: FY17 Results Announcement

By end-August 2017: Annual Report Issued

## SHAREHOLDER COMMUNICATIONS

### GO ELECTRONIC

We offer you the convenience of receiving communications from us by email. This may include the annual report, share transaction statements, dividend payment advice, shareholder meeting notices and other company related material.

It's simple to sign up. Email [enquiry@computershare.co.nz](mailto:enquiry@computershare.co.nz) provide your CSN/shareholder number and confirm you want to receive Abano communications by email.

Alternatively, you can log in to [www.investorcentre.com/nz](http://www.investorcentre.com/nz) and update your details. You will need your CSN/shareholder number and FIN to access Investor Centre and register your account. Going forward, you will access this service with your own User ID and Password.

While there, you can also update other details including change of address, banking instructions and IRD number, and elect to participate or withdraw from Abano's dividend reinvestment plan.

## STAY UP TO DATE: ABANO eNEWS

You can register to receive news and updates from Abano as we release them to the market.

To sign up, scan the QR code here or visit

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



## CONTACT US

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# DENTAL

## DENTAL IS GOING DIGITAL

Dentistry is going digital and Lumino City Dental at Quay Park is at the forefront of digital technology.

In January 2017, City Dental introduced the 3Shape Trios scanner, enabling high resolution intra-oral scanning of teeth. The scanner streamlines a clinical workflow and eliminates the need for messy traditional impressions, which many patients just tolerate.

“We’re finding high levels of accuracy using the Trios”, says Dr Andrea Shepperson, Lead Clinician at City Dental at Quay Park.

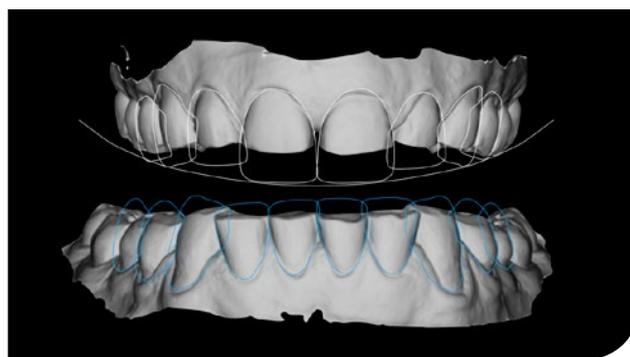
“We are virtually model free in the traditional sense, eliminating lengthy staff time pouring plaster models and packaging cases. Work is sent electronically and 3D printed models are returned from the laboratory with milled restorations designed and manufactured with precision from digital impressions. Our partnership with digital labs in both NZ and Australia is resulting in reduced laboratory costs and time saving at the practice, due to precision fit and minimal adjustments.”

Patient feedback has been excellent and the entire clinician team has embraced the technology. Dr Shepperson, a global educator in digital dentistry, is leading the pilot at Lumino City Dental. She also sits on the Lumino Board and is conscious of the business case for digital technology, which invariably requires a return on the capital expenditure and investment.

Dr Shepperson recently attended the IDS (International Dental Show) in Cologne, the world’s largest biennial dental expo where all major companies release their new technologies developed in the preceding two years.

“The changes from 2015-2017 were phenomenal. Every manufacturer had digital products - from scanners, to in-house or large scale milling, 3D printing and even augmented reality using digital scans to create virtual mockups for patients.

I anticipate that within five years, digital impressions will surpass conventional impressions in the dental office. Lumino is eager to remain at the forefront of dentistry and I look forward to the results of our pilot project at the end of 2017.”



## \$150,000+ OF FREE DENTAL CARE FOR FAMILY CARERS ON LUMINO DAY

For the past four years, Lumino The Dentists has provided thousands of dollars of free dental care to deserving people across New Zealand on its annual Lumino Day.

This year, Lumino partnered with Carers NZ, the national body that provides information, advice, learning and support to family carers around the country. More than 400 family carers visited a participating Lumino practice on Lumino Day, with over \$150,000 of dental treatment provided for free on the day.

Family carers are people who give a lot of their time and themselves to assist a friend or family member who has extra needs due to illness, old age or disabilities. Many carers have had to stop paid work due to the time required to look after the person they are caring for. Self-care, such as taking time out to see a dentist and look after themselves, is a luxury for many family carers.

This year, Carers NZ is celebrating the Year of Wellbeing, a reminder to family carers that to support others well, they need to care well for themselves. Lumino Day was a perfect fit with this, providing a fantastic opportunity and extra incentive for carers to do just that.

Over 150 dentists, hygienists and support staff from 30 Lumino practices participated in this year's event, giving up their time to give back to their communities.



Family carer Susan (pictured above) has a son with Spinal Atrophy type 3. She said: "There are a lot of parents out there that have extra demands on them due to the health of their children. That this group has been singled out as recipients of this day is amazing. I appreciated being invited to be a part of Lumino Day. There are definitely sad and difficult times being a family carer, and gestures like this just help you keep going. It was really special".

Another family carer, Trudy, looks after two grandbabies and survives on the Supported Living Payment Benefit, along with a CYF payment for the younger baby. She says that going to the dentist is 'a luxury' and one where she puts herself last. Being a part of Lumino Day was a gesture that brought her to tears as she felt she was the one being taken care of for once.

"I was blessed beyond words today. I so appreciated this amazing gesture and the free treatment provided by Lumino, not just for me individually, but for all of us collectively. No mean feat and so unheard of today as well. I simply cannot express my gratitude enough."



## MAVEN BRANDING PICKING UP SPEED AND DELIVERING RESULTS

With more than half the Maven Dental Group network expected to be branded by the end of the financial year, the benefits are starting to be realised.

The 18 months' interest free marketing offer currently being run is one example, with the branding providing a platform for more of these network-wide campaigns in the future.

Digital activity has also increased, with Maven branded practices leading a rise in the group's online appointment bookings and phone appointment requests. This is similar to the positive impact seen in New Zealand when the Lumino brand launched and branded advertising commenced.

Website traffic to the new Maven website has continued to increase, with 68% of visitors being new to the site. "Maven" is the most commonly searched terms used to reach the site, which is a demonstration of the traction that the brand is starting to achieve.

The most recent initiative is a centralised contact centre, with a Maven 1800 free phone number launched as a pilot in the Gold Coast and Brisbane areas this month. This builds on the success of the call centre in New Zealand and uses the same supplier. The 1800 number is an important channel for customers, and will become an integral part of all advertising, marketing and online material. It will be rolled out to the rest of the country over the next few months.



**Lumino**  
The Dentists

[www.lumino.co.nz](http://www.lumino.co.nz)



[www.mavendental.com.au](http://www.mavendental.com.au)

# RADIOLOGY

## LEADING THE WAY IN MRI SAFETY

### Cosmetic and Traditional Tattooing

Magnetic Resonance Imaging (MRI) is a common procedure which uses a strong magnetic field and radio-frequency waves to create detailed images of the organs and tissues within the body. A combination of the strength of the magnetic field and the radio-frequency waves is the key to highly detailed images of soft tissue, however, it is also the reason for some of the safety measures around MRI scanning.

Access to an MRI scanner is strictly controlled as any metal objects, such as pens, scissors, clipboards and IV trolleys, can become potentially dangerous projectiles. Implanted metal objects such as some pacemakers, inner ear implants and aneurysm clips can also be unsuitable for MRI scanning.

However, what many people don't realise, is that tattooing can also be a safety concern.

Traditional (decorative) and cosmetic tattooing has been performed for thousands of years. Cosmetic tattoos, in particular, have recently increased in popularity and are used to reshape, recolor, recreate, or modify eye shadow, eyeliner, eyebrows, lips, beauty marks, and cheek blush.

Some of the inks used in tattooing contain ferrous compounds, particularly iron oxide, which can theoretically create an electric current that increases the local skin temperature enough to cause a burn.

The type of tattoo designs can also increase the chance of a reaction. If it is in the shape of a circle, it can act like an antenna, and can also get increasingly hotter as the ink pigments pick up more energy from the magnet. Tattoos near the eyes such as eyeliner tattoos are also of particular concern, as the area can be very sensitive to heat.

Patient safety is a priority for Ascot Radiology and before undergoing an MRI scan, all patients are asked if they have ever had a tattoo. If a tattoo has been completed recently, there is a compulsory two week stand down to allow the skin to heal over the tattoo sufficiently, to reduce the chance of any adverse reaction.



### INTRODUCING KIRSTY CAMPBELL Charge MR Technologist, Ascot Radiology

Kirsty began her radiography training in 1994 at Middlemore Hospital, and qualified in 1996 with the National Diploma of Medical Diagnostic Imaging (NDMDI).

After travelling overseas and working for another private practice in Auckland, Kirsty joined Ascot Radiology at its inception in 1999. She started training in MRI in 2000, becoming Charge MR Technologist in 2004. She completed her post-graduate diploma of Health Science in MRI in 2006.

Today Kirsty is in charge of three magnets and seven staff, including two trainees, and has just been elected to the SMRT (Society of Magnetic Resonance Technologists) Policy Board for a three-year tenure. SMRT is an international organisation with its head office based in the USA and Policy Board members actively participate in the continuing education of MR technologists worldwide.

Kirsty is also instrumental in organising MRI scans of animals in conjunction with several local vets.

In her spare time, Kirsty is involved with Paw Justice, an anti-animal abuse charity, and is a keen Cross Fit competitor. She is married to Shaughan, a stuntman; has an eight-year-old daughter, Andee; a very large Italian mastiff, Louie; and Beauty, a short-haired Persian cat.

# UNDERSTANDING OUR PERFORMANCE MEASURES

## DENTAL ACQUISITIONS

Dental practices can range in size and scale, with a New Zealand practice average revenue of about NZ\$1 million and Australian practices almost double this amount. When considering our acquisition rate, it is important to take into account the regional mix and size of practices acquired. Abano is the second largest trans-Tasman dental group and the only listed dental entity in Australasia to have practices in both New Zealand and Australia.

The time required to complete an acquisition can vary depending on the circumstances of the vendor and other factors. Selling a dental practice can be a very personal event for many dentists who have often established and built their practices from the ground up. Their business may also be one of their largest family assets. For some, it's an easy and quick decision to join Abano's dental group; for others, it takes more time to make the move.

These dentists become an important part of our group, and we want to remain in a long term relationship with them, so It is essential for both them and us to be comfortable with each other. The timing of each acquisition can also be affected by unexpected things that come up during due diligence or prior to settlement, such as landlord assignments and consent, which may result in an acquisition being deferred.

Abano has a strong acquisition pipeline with multiple potential acquisitions at different stages of the purchase cycle. In line with regional trends, some of these practices are very large multi-location acquisitions, while others are smaller owner-operator practices.

Our target is to acquire more than 25 practices per year or \$35 million in annualised gross revenues from acquisitions per year by FY20. It is important not to focus solely on one metric such as the number of practices, but to also take into account the revenue and EBITDA they contribute. For example, the acquisition of one large practice could be three times the size of a "standard" acquisition. This financial year, to the end of April, we have already acquired 26 practices.

## DENTAL SAME STORE PERFORMANCE

Same store performance looks at the difference in revenue generated by each of Abano's practices that have been a part of the network for a year or more. In this way, we can track how we are performing each month compared to the same practices in the same month in the previous year. This provides an accurate performance comparison for established practices over a given time period and allows us to measure the improvements and organic growth being delivered by each practice.

To ensure an accurate comparison, we also account for each business day to ensure the result is not impacted by a differing number of business days each month. Other dental groups may use a different basis for same store measurement, which makes comparison problematic.

Given our strategy is to acquire established practices which are already delivering consistent sales and revenue, our same store sales numbers will typically be lower than greenfield practices which are starting off a zero base. Our three-year target is to deliver same store revenue growth of 6% over the three year period from FY18 to FY20.

Same store growth is one of a number of financial and non-financial metrics we use to assess the performance of our dental business.

### DENTAL ACQUISITIONS



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