IDH Finance plc

Quarterly Financial Report
3 months ended 30 June 2015

Contents

Presentation of financial data

This report summarises consolidated financial and operating data derived from the unaudited consolidated financial statements of Turnstone Midco 2 Limited, the parent company of IDH Finance plc. The summary financial information provided has been derived from our records for the three month accounting period to 30 June 2015 which are maintained in accordance with UK GAAP. The interim results are not necessarily indicative of the results to be expected for the full year.

In accordance with the implementation timetable for the new UK accounting regime, the group is required to adopt Financial Reporting Standard 102 ('FRS 102') for financial statements prepared in the year ending 31 March 2016. This standard has been applied for the first time in preparing these condensed consolidated financial statements. The group's transition date is 1 April 2014 and the results for the comparative period, being the three month period ended 30 June 2014, are also restated in accordance with FRS 102. A reconciliation of the differences between the profit and loss account and balance sheet as reported in accordance with FRS 102, as compared to the position reported under the previous UK accounting regime can be found at Appendix A.

We have presented certain non-GAAP information in the quarterly report. This information includes "EBITDA", which represents earnings before interest, tax, depreciation, amortisation and one-off exceptional and strategic items. Our management believes EBITDA is meaningful for investors because it provides an analysis of our operating results, profitability and ability to service debt. EBITDA is also used by management to track our business development, establish operational and strategic targets and make important business decisions. EBITDA is the measure commonly used by investors and other interested parties in our industry.

Comparative information has been provided for the quarter ended 30 June 2014. Information presented in this report and described as like-for-like excludes any practices or other operating units trading in the group in the current financial year or the year ended 31 March 2015 but not in both.

References to "Integrated Dental Holdings", "IDH" and "the group" refer to Turnstone Midco 2 Limited and all of its subsidiaries.

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Summary highlights

- Turnover for the three months ended 30 June 2015 (“Q1 FY16”) was £135.5m. Year on year turnover growth, predominantly driven by acquisitions, was 9.4%.
- Q1 FY16 like-for-like private revenue growth of 10.4%.
- Q1 FY16 gross margin percentage of 45.7% compared to 44.9% in the three months to 30 June 2014 (“Q1 FY15”).
- Administrative expenses, excluding depreciation, goodwill amortisation and exceptional items, as a percentage of turnover was 32.9%, compared to 30.9% in Q1 FY15.
- EBITDA before exceptional items for the three months ended 30 June 2015 of £17.7m, in line with the three months to 30 June 2014.
- LTM EBITDA of £76.8m; and pro-forma LTM EBITDA of £83.3m.
- Nine practices were acquired during the quarter for £12.3m – total practices increased to 651.
- Includes first practices acquired in Northern Ireland with four acquired in June.
- Operating cash generated of £21.0m (Q1 FY15: £17.5m).
- Maintenance capital expenditure for the quarter ended 30 June 2015 was £5.9m.
- Normalised cash conversion adjusting for one-off items in working capital and maintenance capital expenditure was 110.6%.
- Cash and cash equivalents at 30 June 2015 of £26.5m and net debt was £495.0m.
- Gearing levels are 6.45 times and 5.94 times LTM EBITDA and pro-forma LTM EBITDA respectively.
- ‘mydentist’ brand rolled out to 124 practices as of 30 June 2015.

Management's discussion and analysis of financial condition and results of operations

Overview

Integrated Dental Holdings ("IDH") is pleased to announce its results for the quarter ended 30 June 2015.

IDH is the leading provider of dental services in the United Kingdom with a network of 651 dental practices throughout England, Scotland and Wales.

Our core business is the provision of primary care dental services on behalf of the NHS. The majority of our dental practices also provide private dentistry services including general dentistry, hygienist and cosmetic services. A small number of our practices also provide specialist and advanced services such as treatment under sedation, dental implants and orthodontics.

The group is also a leading provider of materials, equipment and services to dental practices across the UK through The Dental Directory ("DD") and Dental Buying Group ("dbg"). In conjunction with the Academy (provision of internal and external learning facilities), DD and dbg make up our Practice Services division.

Commentary on results

The following discussion of IDH's financial condition and results of operations should be read in conjunction with the unaudited condensed consolidated financial statements and the related notes contained in this interim report.

The key performance indicators for the group for the four quarters from 1 April 2014 to 31 March 2015 and for the quarter ended 30 June 2015 are provided below:

Key performance indicators		Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016
Turnover (£m)		123.9	133.2	135.5	141.7	135.5
EBITDA (£m)		17.7	19.1	18.0	21.9	17.7
LTM EBITDA (£m)		70.1	73.6	73.9	76.8	76.8
Operating profit (£m)	(1)	4.2	3.4	0.8	4.8	(2.5)
NHS dentistry services as a percentage of turnover		71.3%	69.2%	69.5%	69.4%	68.4%
Private dentistry services as a percentage of turnover		12.7%	12.7%	13.1%	13.3%	14.9%
Practice services as a percentage of turnover	(2)	16.0%	18.1%	17.4%	17.3%	16.7%
Like-for-like private turnover growth		15.0%	13.8%	9.4%	11.5%	10.4%
Gross profit margin %		44.9%	44.9%	44.4%	45.1%	45.7%
Administrative expenses as a percentage of turnover		30.9%	30.9%	31.4%	30.0%	32.9%
EBITDA margin %		14.3%	14.4%	13.3%	15.4%	13.1%
Number of dental practices		592	621	628	644	651
Maintenance capital expenditure (£m)		4.7	4.6	5.4	5.9	5.9
Cash conversion after maintenance capital expenditure %	(3)	74.4%	100.7%	56.7%	103.0%	102.3%
Pro-forma EBITDA (£m)		83.8	86.0	83.2	85.1	83.3

(1) Operating profit figures are as restated in accordance with FRS 102. Under UK GAAP as previously applied, operating profit in Q1 FY16 would be £0.8m (Q1 FY15: £4.5m; Q2 FY15: £4.3m; Q3 FY15: £2.1m; Q4 FY15: £6.3m). See also Appendix A.

(2) Turnover from practice services includes the Dental Buying Group ("dbg") and The Dental Directory and totals £22.7m in Q1 FY16 (Q1 FY15: £19.9m).

(3) Normalised cash conversion, after adjusting for one-off items in working capital and maintenance capital expenditure in Q1 FY16 was 110.6% (Q1 FY15: 78.6%).

In the quarter ended 30 June 2016, we acquired nine dental practices for a total of 651 dental practices in our estate as at the quarter end.

Turnover

Group turnover increased by £11.7m, or 9.4%, from £123.9m for the three month period ended 30 June 2014 (“Q1 FY15”) to £135.5m for the three month period to 30 June 2015 (“Q1 FY16”).

Turnover derived from dental practices increased by £8.9m from £103.9m to £112.9m. The remaining £2.8m increase was delivered from our practice services division and partly reflects a full quarter contribution in Q1 FY16 (as compared to Q1 FY15) from The Dental Directory following its acquisition on 17 April 2014.

Group turnover	Q1 2016	Q1 2015	Movement
	£'000	£'000	£'000
Practices owned as at 1 April 2014	102,828	103,634	(806)
Practices acquired or opened:			
During the 12 months ended 31 March 2015	9,664	300	9,364
During the 3 months ended 30 June 2015	362	-	362
Dental practice turnover	112,854	103,934	8,920
Practice services and other turnover	22,678	19,919	2,759
Group turnover	135,532	123,853	11,679

Turnover of £9.7m was contributed by the 67 practices acquired or opened during the period 1 April 2014 to 31 March 2015 (“FY15 acquisitions”) in the quarter ended 30 June 2015, a £9.4m increase over the £0.3m contributed by the nine practices acquired in the first three months of the last financial year. The nine practices acquired during the first three months of FY16 (“FY16 acquisitions”) contributed an additional £0.4m.

NHS revenue

NHS revenue for the quarter ended 30 June 2015 was £92.6m, an increase of £4.3m or 5.0% from £88.3m in Q1 FY15.

This increase was principally due to the impact of acquisitions with £6.8m generated by FY15 and FY16 acquisitions.

NHS revenue generated from practices owned at 1 April 2014 reduced from £88.1m to £85.7m due to:

- lower levels of UDA performance in the quarter, although continuing to mirror the latest available NHS industry data;
- partially offset by the 1.34% NHS dentistry contract uplift applied to the contracted Units of Dental Activity (“UDA”) from 1 April 2015; and
- patients choosing private treatment solutions instead of NHS treatment plans;

Included within the NHS revenue number is £7.8m (Q1 FY15: £6.7m) generated from the delivery of Orthodontic services under contracts with NHS England.

Private revenue

Private revenue for the quarter ended 30 June 2015 was £20.2m, 29.0% higher than £15.7m for the equivalent period in FY15.

Practices owned at 1 April 2014 increased private sales by £1.6m or 10.4% to £17.2m for the quarter with acquired practices generating £2.9m additional private revenue. Private revenue increases have been generated through increases to minimum recommended prices, the development of additional services for the dentist associates to provide to our patients and increased training for our associates in providing patient choice.

Practice services and other revenue

Revenue of £22.7m (Q1 FY15: £19.9m) has been generated from The Dental Directory, dbg and other services.

Cost of sales

Gross margin for the quarter ended 30 June 2015 was 45.7% a 0.8% increase from 44.9% in the quarter ended 30 June 2014. Patient services gross margin for Q1 FY16 was 48.4% (Q1 FY15: 48.2%) and gross margin in our practice services division was 32.6% (Q1 FY15: 27.5%) due to changes in sales mix and favourable exchange rates particularly with the Euro.

Cost of sales increased by £5.4m, or 7.9%, from £68.3m to £73.7m for the quarter. The increase in the cost of sales is primarily the result of the FY15 and FY16 practice acquisitions within Patient services, which increased cost of sales by £5.1m.

The mix effect of increased private turnover and the associated higher dentist fee rates, laboratory and materials costs have continued to partially dilute the effect of the margin increase arising from the 1.34% NHS contract uplift.

Locum usage during Q1 FY16 has increased slightly when compared to Q1 FY15, however this has been offset by further savings in laboratory fees and materials costs. Materials costs have decreased as a result of the transfer of materials purchasing to The Dental Directory during Q2 FY15 and of management actions taken in Q4 FY15 to address the cost issues highlighted in our Q3 and Q4 FY15 reports.

Administrative expenses

Administrative expenses including amortisation of intangibles and depreciation were £64.9m for Q1 FY16, an increase of £13.1m from £51.8m in the three months to 30 June 2014.

Following the adoption of FRS 102, the group has reclassified from goodwill certain intangible assets arising through acquisitions from the transition date of 1 April 2014 onwards. These intangible assets principally include contractual arrangements, customer relationships and brands or trademarks. As a result of these adjustments, which impact the useful life over which the intangible assets and residual goodwill are amortised, the amortisation charge for Q1 FY16 is £11.9m. Under the previous UK accounting regime the amortisation charge would have been £10.2m (Q1 FY15: now £9.6m, previously £9.3m). Refer also to Appendix A.

Administrative expenses excluding amortisation of intangibles, depreciation, grant income and exceptional items were £44.6m, an increase of £6.3m from £38.3m in Q1 FY15.

The movement in administrative expenses is primarily due to the full period effect of the acquired Dental Directory business, in addition to practice overheads relating to dental practice acquisitions including staff costs, rent, utilities and equipment maintenance and central administrative increases for the additional practices.

The group’s largest overhead is the cost of staff working in dental practices, in operational management and at head office. In the quarter ended 30 June 2015, staff costs were £29.2m, an increase of £4.1m from £25.1m in Q1 FY15. This increase is due to the full period effect of the Dental Directory acquisition (£0.7m), practice acquisitions (£1.7m) and a general staff pay increase of 1.5% awarded at the beginning of May 2015. In addition, management have made investments in practice operations including increasing the number of practice and area managers, a management team focused on the development of private revenues, improved dentist clinical support and investment in pay structures to retain and incentivise nurses.

Rent expense for the quarter was £3.3m, 2.1% of revenue and an increase of £0.5m from £2.8m in Q1 FY15. The increase was due to the growth in the number of practices.

Dental equipment and practice property maintenance costs for Q1 FY16 were £2.6m, £0.6m higher than Q1 FY15 due to the increased practice estate.

Other operating income

Other operating income for the three months ended 30 June 2015 was £0.5m. Other operating income includes contractual support received from Scottish Health Boards to assist in the upkeep of our Scottish dental practices (based on the proportion of NHS treatment carried out by each practice) and property rental income.

EBITDA before exceptional items

Earnings before interest tax, depreciation, amortisation and exceptional items for the three months ended 30 June 2015 was £17.7m.

Exceptional items

Exceptional items of £3.9m primarily relate to costs associated with the 'mydentist' re-branding. As at 30 June 2015, the 'mydentist' brand had been rolled out to 124 sites.

Pro-forma LTM EBITDA

	£'000
LTM EBITDA before exceptional items at 30 June 2015	76,788
Estimated adjusted EBITDA of acquired dental practices at 30 June 2015	4,914
Reversal of one off stock adjustment and Practice services synergies	1,615
Estimated pro-forma adjusted LTM EBITDA	83,317

Pro-forma LTM EBITDA has been calculated following the methodology set out in the IDH Finance plc Offering Memorandum dated 22 May 2013.

The estimated adjusted EBITDA for acquired dental practices are management estimates for the annual EBITDA of an acquired practice less the actual results consolidated in LTM EBITDA from the date of acquisition.

Interest

Interest payable and similar charges of £9.8m includes £7.6m in respect of the £200.0m 6% Senior Secured Fixed Rate Notes, £225.0m Senior Secured Floating Rate Notes and £75.0m Second Lien Note. A further £1.9m relates to the amortisation of arrangement fees, interest rate swap charges and interest charges in respect of the Super Senior Revolving Credit Facility. £0.3m arises from the unrealised mark-to-market movement in the value of foreign exchange forward contracts taken out for currency requirements in the Practice services division.

Interest receivable and similar income of £0.8m principally arises from the mark-to-market movement in the value of the group's interest rate swap contracts.

Mark-to-market movements in the value of derivative financial instruments are recognised in these results for the first time following the adoption of FRS 102. Interest costs for Q1 FY15, have been restated to include a credit of £0.7m resulting from the mark-to-market movement in the value of the interest rate swap contracts in that period.

Debt and liquidity

At 30 June 2015, the net debt was £495.0m, compared to £491.7m at 31 March 2015. This movement principally reflects a decrease in cash balances during the quarter. No additional borrowings were drawn during the three months ended 30 June 2015.

Net cash flow for the quarter was an outflow of £2.6m. This reflects cash generated from operating activities of £21.0m, with outflows arising from, expenditure of £12.3m on acquisitions, capital expenditure of £7.1m, including the refurbishment of acquisition sites and £4.2m for the servicing of finance.

Working capital movements

Net cash inflow from operating activities increased from £17.5m in Q1 FY15 to £21.0m in Q1 FY16 and the ratio of EBITDA to operating cash flow increased from 98.5% to 118.3%.

Capital expenditure

Capital expenditure for Q1 FY16 was £7.1m and includes acquisition refurbishments of £1.2m and "maintenance" capital expenditure of £5.9m.

Maintenance capital expenditure includes £1.1m for the merger of three practices in Torquay into two new premises and £0.2m for the merger of two practices in Barnsley into a single new practice.

Cash conversion

Cash conversion is measured as the ratio of EBITDA to operating cash flow less maintenance capital expenditure and for the quarter was 102.3% compared to 74.4% in the corresponding quarter in FY15. The cash conversion in FY15 was lower than usual due to the timing of certain creditor payments, however the ratio is FY16 is higher than usual due to changes made in the payments terms to dental associates and the reduced level of NHS contract performance.

Cash conversion was reduced by the relocation capital expenditure projects discussed above. After taking these items into account, cash conversion would increase to 110.6% for the quarter (Q1 FY15: 78.6%).

Acquisitions

Acquisitions capital expenditure in the quarter was £12.3m and included our first acquisition in Northern Ireland (a group of four practices) and the acquisition of a small group of Orthodontic practices in the North West of England.

Risk factors

There have been no material changes in IDH's overall opportunity and risk position when compared to the Risk factors set out in the IDH Finance plc Offering Memorandum dated 22 May 2013, the updated Offering Memorandum dated 6 May 2014 and the statutory accounts for Turnstone Midco 2 Limited for the year ended 31 March 2015.

Turnstone Midco 2 Limited

Condensed consolidated interim financial statements – Unaudited

Q1 2016 – 3 month period ended 30 June 2015

Profit and loss account (unaudited)

For the quarter ended 30 June 2015

	Note	Q1 2016 £'000	Q1 2015 £'000
Turnover	3	135,532	123,853
Cost of sales		(73,651)	(68,284)
Gross profit		61,881	55,569
Administrative expenses		(64,864)	(51,845)
Other operating income		454	462
Operating (loss)/profit		(2,529)	4,186
EBITDA before exceptional items	3	17,747	17,723
Depreciation		(4,548)	(3,982)
Amortisation of intangible assets		(11,880)	(9,568)
Amortisation of grant income		54	111
Exceptional items		(3,902)	(98)
Operating (loss)/profit		(2,529)	4,186
(Loss)/profit on disposal of assets		(432)	288
(Loss)/profit on ordinary activities before interest and taxation		(2,961)	4,474
Interest payable and similar charges		(9,823)	(9,898)
Interest receivable and similar income		755	741
Loss on ordinary activities before taxation	3	(12,029)	(4,683)
Tax on loss on ordinary activities	4	602	(508)
Loss on ordinary activities after taxation		(11,427)	(5,191)
Non-controlling interests		43	(18)
Loss for the financial period	8	(11,384)	(5,209)

Balance sheet (unaudited)

At 30 June 2015

	Note	Q1 2016 £'000	Q1 2015 £'000
Intangible assets	*5*	683,555	659,517
Tangible assets		94,124	87,704
Fixed assets		777,679	747,221
Stock		21,411	22,605
Debtors		60,933	67,455
Cash at bank and in hand		26,468	23,395
Current assets		108,812	113,455
Creditors: amounts falling due within one year	*6*	(104,066)	(86,517)
Net current assets		4,746	26,938
Creditors: amounts falling due after more than one year	*7*	(531,433)	(496,372)
Provisions for liabilities and charges		(22,354)	(17,046)
Defined benefit pension scheme deficit		(331)	-
Net assets		228,307	260,741
Capital and reserves			
Share capital	*8*	410,961	410,961
Profit and loss reserve	*8*	(182,492)	(150,204)
Non-controlling interests	*8*	(162)	(16)
Total shareholders' funds	*8*	228,307	260,741

Cash flow statement (unaudited)

For the quarter ended 30 June 2015

	Q1 2016	Q1 2015
	£'000	£'000
Operating (loss)/profit	(2,529)	4,186
Amortisation of intangible assets	11,880	9,568
Depreciation	4,548	3,982
Amortisation of grant income	(54)	(111)
Defined benefit pension scheme service cost	-	-
Decrease/(increase) in stock	817	(389)
Increase in debtors	(6,534)	(2,306)
Increase in creditors	13,235	3,060
Decrease in provisions	(363)	(533)
Net cash inflow from operating activities	21,000	17,457
Corporation tax (paid)/recovered	-	69
Returns on investments and servicing of finance	(4,229)	(3,232)
Capital expenditure	(7,134)	(5,073)
Acquisitions and disposals	(12,285)	(71,130)
Net cash outflow before financing	(2,648)	(61,909)
Debt issue costs	-	(882)
Financing	-	79,250
(Decrease)/increase in cash for the period	(2,648)	16,459
Opening cash	29,116	6,936
Closing cash	26,468	23,395

Reconciliation of net cash flow to movement in net debt (unaudited)

For the quarter ended 30 June 2015

	Q1 2016	Q1 2015
	£'000	£'000
(Decrease)/increase in cash for the period	(2,648)	16,459
Drawdown of bank loans	-	(68,500)
Repayment of bank loans	-	90,500
Issue of high yield bonds	-	(101,250)
Total cash movement in net debt	(2,648)	(62,791)
Amortisation of loan arrangement fees	(629)	(673)
Total non-cash movement in net debt	(629)	(673)
Total movement in net debt	(3,277)	(63,464)
Net debt brought forward	(491,725)	(401,599)
Net debt carried forward	(495,002)	(465,063)

Notes

Forming part of the financial statements

1 General information and statement of compliance

Turnstone Midco 2 Limited (the "company", and with its subsidiaries, the "group") is a company registered in England. It is the parent company of IDH Finance plc (the "issuer"). The company is 100% owned by Turnstone Midco 1 Limited and the ultimate UK parent company is Turnstone Equityco 1 Limited.

The condensed consolidated interim financial statements of the company are for the quarter ended 30 June 2015. Comparative results are provided for the quarter ended 30 June 2014.

The content of this report does not constitute statutory financial statements and is unaudited.

The condensed consolidated interim financial statements have been prepared in accordance with the recognition and measurement requirements of UK Generally Accepted Accounting Practice (UK GAAP). Accordingly, and in line with the transition timetable, the group has adopted FRS 102 for the first time in the preparation of these condensed consolidated financial statements.

These condensed consolidated financial statements do not reflect all of the disclosure requirements for full annual statements and should be read in conjunction with the consolidated financial statements of Turnstone Midco 2 Limited and Turnstone Equityco 1 Limited for the year ended 31 March 2015, both of which are available from our website, www.idhgroup.co.uk.

2 Accounting policies

The condensed consolidated financial statements have been prepared on the basis of the accounting policies set out in the 2015 directors' report and consolidated financial statements for Turnstone Midco 2 Limited and Turnstone Equityco 1 Limited as adjusted for the adoption of FRS102. The key changes relate to the recognition of the fair values for derivative financial instruments, the treatment of goodwill and intangible assets on acquisitions and the recognition of deferred tax. The impact of these changes can be reviewed in Appendix A.

Turnover

Turnover represents the income received in the ordinary course of business for dentistry goods or services provided to the extent that the group has obtained the right to consideration. Turnover derived from NHS contracts in England and Wales is recognised on the volume of dental activity delivered in the financial year. Turnover from all private dental work and NHS patients in Scotland is recognised on the completion of each piece of treatment carried out, with the exception of orthodontic treatment, which is recognised based on the stage of completion reached during the course of treatment.

Goodwill

Purchased goodwill (representing the excess of the fair value of the consideration and associated costs over the fair value of the separable net assets acquired, including intangible assets) arising on consolidation in respect of acquisitions is capitalised. Positive goodwill is amortised to nil by equal annual instalments over its estimated useful life.

The group has not applied section 19 of FRS 102 to business combinations which occurred prior to the transition date of 1 April 2014, in accordance with the transitional exemption permitted under FRS 102.

Goodwill arising prior to the transition date is amortised over a useful life of 20 years. Goodwill arising through business combinations occurring after the transition date is amortised over a useful life of 5 years.

Notes

Forming part of the financial statements

The carrying value of goodwill is evaluated when there is an indicator of impairment. When it is determined that the carrying value exceeds the recoverable amount, the excess is written off to the profit and loss account.

In calculating the goodwill, the total consideration, both actual and deferred, is taken into account. Where the deferred consideration is contingent and dependent upon future trading performance, an estimate of the present value of the likely consideration payable is made. This contingent deferred consideration is re-assessed annually and corresponding adjustment is made to the goodwill arising on acquisition.

On the subsequent disposal or termination of a business acquired, the profit or loss on disposal or termination is calculated after charging the unamortised amount of any related goodwill.

Externally acquired intangible assets

Externally acquired intangible assets are initially recognised at cost and subsequently amortised on a straight-line basis over their useful economic lives.

Intangible assets are recognised on business combinations post 1 April 2014 if they are separable from the acquired entity or give rise to other contractual or legal rights. The amounts ascribed to such intangibles are arrived at by using appropriate valuation techniques.

The significant intangible assets recognised by the group, their estimated useful economic lives and the methods used to determine the cost of intangible assets acquired through business combinations are as follows:

Intangible asset	***Estimated useful economic life***	***Valuation method***
Contractual arrangements and relationships	20 years	Estimated discounted cash flow
Customer relationships	10-20 years	Estimated discounted cash flow
Brands and trademarks	15 years	Estimated royalty stream if the rights were to be licensed

Contractual arrangements reflect long term, fixed income, contracts with the NHS for the delivery of dentistry services. These contracts specify targeted annual volumes of units of dental activity (‘UDA’s’) for a contracted dental practice or entity. The majority of these contracts have no fixed term and will roll over indefinitely provided that certain performance targets are achieved.

Taxation

The corporation tax expense to be recognised in an interim period is based on the best estimate of the average corporation tax rate expected for the full year applied to the profit before tax for the interim period.

Deferred taxation

Deferred tax is recognised in respect of all timing differences at the reporting date, except as otherwise indicated. Deferred tax assets are only recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. If and when all conditions for retaining tax allowances for the cost of a fixed asset have been met, the deferred tax is reversed.

Notes

Forming part of the financial statements

Deferred tax is recognised when income or expenses from a subsidiary or associate have been recognised, and will be assessed for tax in a future period, except where:

- the group is able to control the reversal of the timing difference; and

- it is probable that the timing difference will not reverse in the foreseeable future.

A deferred tax liability or asset is recognised for the additional tax that will be paid or avoided in respect of assets and liabilities that are recognised in a business combination. The amount attributed to goodwill is adjusted by the amount of deferred tax recognised.

Deferred tax is calculated using the tax rates and laws that that have been enacted or substantively enacted by the reporting date that are expected to apply to the reversal of the timing difference.

With the exception of changes arising on the initial recognition of a business combination, the tax expense / (income) is presented either in profit or loss, other comprehensive income or equity depending on the transaction that resulted in the tax expense / (income).

Deferred tax liabilities are presented within provisions for liabilities and deferred tax assets within debtors. Deferred tax assets and deferred tax liabilities are offset only if:

- the group has a legally enforceable right to set off current tax assets against current tax liabilities, and

- the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously.

Derivative financial instruments

Derivative financial instruments are recognised at fair value using market valuation rates with any gains or losses being reported in profit or loss. Outstanding derivatives at reporting date are included under the appropriate format heading depending on the nature of the derivative.

Leases

Operating leases are charged to the profit and loss account on a straight line basis over the period of the lease.

Partnerships

Certain members of the group management team act as partners on behalf of group companies in a number of dental practice partnerships. These partnerships are held on trust on behalf of a number of group companies. All profits arising from partnership activity are transferred to a group trading company.

As a result, the group considers that it has control of these partnerships and consequently the results of the partnerships are consolidated into the group’s financial statements. The partnerships are accounted for in accordance with the group’s accounting policies.

Notes

Forming part of the financial statements

3 Segmental information

	Q1 2016	
	Turnover	Profit
	£'000	£'000
Dental practices	112,854	15,843
Practice services	22,678	1,904
Group turnover/EBITDA	135,532	17,747
Exceptional items		(3,902)
(Loss)/profit on disposal of assets		(432)
Depreciation and amortisation		(16,374)
Net interest payable		(9,068)
Loss before taxation		(12,029)

Practice services include The Dental Directory group, dbg, the Academy and recruitment services.

All activities arose in the United Kingdom.

4 Taxation

	Q1 2016	Q1 2015
	£'000	£'000
Analysis of tax (charge)/credit in the period		
Current tax		
Corporation tax	-	-
Total current tax credit/(charge)	-	-
Deferred tax		
Deferred tax (charge)/credit	602	(508)
Adjustment in respect of prior periods	-	-
Effect of changes in tax rates	-	-
Total deferred tax (charge)/credit	602	(508)
Tax (charge)/credit on ordinary activities	602	(508)

Due to the level of allowable interest deductions and the availability of capital allowances, no current tax liability has been recognised for current trading in the quarter ended 30 June 2015.

The main rate of Corporation Tax was reduced to 21% from 1 April 2014. A further reduction to 20% from 1 April 2015 was substantively enacted in the Finance Act 2013 and the deferred tax assets and liabilities have been measured accordingly.

Further changes to UK Corporation Tax rates were announced in the Chancellor's Budget statement on 8 July 2015. These changes include a reduction in the main rate of Corporation Tax to 19% from 1 April 2017 and to 18% from 1 April 2020. As the changes had not been substantively enacted at the balance sheet date their effects are not included in these financial statements.

Notes

Forming part of the financial statements

5 Intangible fixed assets

During the three months ended 30 June 2015, the group acquired nine dental practices. All acquisitions made in the period were of subsidiaries. Separately identifiable intangible assets of £10.2m and goodwill of £3.4m arose on these acquisitions.

Due to the timing of these acquisitions, the initial acquisition accounting and determination of fair values has currently only been determined on a provisional basis.

6 Creditors: amounts falling due within one year

	Q1 2016	Q1 2015
	£'000	£'000
Trade creditors	16,994	17,834
Other taxation and social security	3,817	3,146
Corporation tax	161	499
Deferred consideration for acquisitions	4,482	7,272
Accruals and deferred income	70,769	50,273
Accrued interest	7,496	7,436
Derivative financial liabilities	347	57
	104,066	86,517

Deferred consideration is due to the vendors of individual practices.

Derivative financial liabilities reflect the mark-to-market value of unrealised foreign exchange forward contracts.

Notes

Forming part of the financial statements

7 Creditors: amounts falling after more than one year

	Q1 2016	Q1 2015
	£'000	£'000
High yield bonds	500,949	501,227
Debt issue costs	(9,979)	(12,769)
High yield bonds net of debt issue costs	490,970	488,458
Super senior revolving credit facility	30,500	-
Deferred consideration	7,171	6,236
Accruals and deferred income	430	346
Derivative financial liabilities	2,362	1,332
	531,433	496,372

High yield bonds totalling £400m were issued at 100% on 30 May 2013. A further £100m of Senior Secured Floating Rate Notes were issued on 9 May 2014 at 101.25%. As at 31 December 2014, high yield bonds in issue consist of:

- £200m 6% Senior Secured Fixed Rate Notes due to mature on 1 December 2018;
- £225m Senior Secured Floating Rate Notes due to mature on 1 December 2018. The notes are set at a floating rate of GBP LIBOR plus 5% each quarter.
- £75m 8.5% Second Lien Notes due to mature on 1 June 2019.

The premium arising on the notes issued in May 2014 is to be amortised over the remaining term to maturity.

The super senior revolving credit facility has an interest charge of GBP LIBOR plus 4%.

As part of an interest rate management strategy, the group has entered into two interest rate contracts to swap LIBOR for a fixed rate. The mark-to-market value of these contracts at the balance sheet date is included above under the heading ‘Derivative financial liabilities’.

Deferred consideration is due to the vendors of individual practices over the next 2-5 years.

8 Movements in shareholders’ funds

	Q1 2016				Q1 2015			
	Share capital	Profit and loss reserve	Minority interest	Total	Share capital	Profit and loss reserve	Minority interest	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At beginning of the period	410,961	(171,108)	(119)	239,734	410,961	(144,995)	(34)	265,932
Loss for the financial period	-	(11,384)	(43)	(11,427)	-	(5,209)	18	(5,191)
At end of period	410,961	(182,492)	(162)	228,307	410,961	(150,204)	(16)	260,741

Appendix A

Reconciliation from previous UK GAAP to FRS 102

Other than minor reclassifications, there are no significant changes to the cash flow statement as previously reported.

Profit and loss account (unaudited)

For the quarter ended 30 June 2015

	Q1 2016					Q1 2015				
	Previous UK GAAP £'000	Business combinations	Derivative financial instruments	Deferred tax	As reported under FRS 102	As previously reported £'000	Business combinations	Derivative financial instruments	Deferred tax	As restated under FRS 102
Turnover	135,532	-	-	-	135,532	123,853	-	-	-	123,853
Cost of sales	(73,651)	-	-	-	(73,651)	(68,284)	-	-	-	(68,284)
Gross profit	61,881	-	-	-	61,881	55,569	-	-	-	55,569
Administrative expenses	(63,134)	(1,548)	-	(182)	(64,864)	(51,554)	(240)	-	(51)	(51,845)
Other operating income	454	-	-	-	454	462	-	-	-	462
Operating (loss)/profit	(799)	(1,548)	-	(182)	(2,529)	4,477	(240)	-	(51)	4,186
EBITDA before exceptional items	17,747	-	-	-	17,747	17,723	-	-	-	17,723
Depreciation	(4,548)	-	-	-	(4,548)	(3,982)	-	-	-	(3,982)
Amortisation of goodwill	(10,150)	(1,548)	-	(182)	(11,880)	(9,277)	(240)	-	(51)	(9,568)
Amortisation of grant income	54	-	-	-	54	111	-	-	-	111
Exceptional items	(3,902)	-	-	-	(3,902)	(98)	-	-	-	(98)
Operating (loss)/profit	(799)	(1,548)	-	(182)	(2,529)	4,477	(240)	-	(51)	4,186
(Loss)/profit on disposal of assets	(432)	-	-	-	(432)	288	-	-	-	288
(Loss)/profit on ordinary activities before interest and taxation	(1,231)	(1,548)	-	(182)	(2,961)	4,765	(240)	-	(51)	4,474
Interest payable and similar charges	(9,519)	-	(304)	-	(9,823)	(9,898)	-	-	-	(9,898)
Interest receivable and similar income	14	-	741	-	755	13	-	728	-	741
Loss on ordinary activities before taxation	(10,736)	(1,548)	437	(182)	(12,029)	(5,120)	(240)	728	(51)	(4,683)
Tax on loss on ordinary activities	751	-	-	(149)	602	(213)	-	-	(295)	(508)
Loss on ordinary activities after taxation	(9,985)	(1,548)	437	(331)	(11,427)	(5,333)	(240)	728	(346)	(5,191)
Non-controlling interests	43	-	-	-	43	(18)	-	-	-	(18)
Loss for the financial period	(9,942)	(1,548)	437	(331)	(11,384)	(5,351)	(240)	728	(346)	(5,209)

Appendix A

Reconciliation from previous UK GAAP to FRS 102

Balance sheet (unaudited)

At 30 June 2015

	Q1 2016					Q1 2015				
	Previous UK GAAP £'000	Business combinations	Derivative financial instruments	Deferred tax	As reported under FRS 102	As previously reported £'000	Business combinations	Derivative financial instruments	Deferred tax	As restated under FRS 102
Intangible assets	677,166	(5,222)	57	11,554	683,555	653,998	(240)	57	5,702	659,517
Tangible assets	94,124	-	-	-	94,124	87,704	-	-	-	87,704
Fixed assets	771,290	(5,222)	57	11,554	777,679	741,702	(240)	57	5,702	747,221
Stock	21,411	-	-	-	21,411	22,605	-	-	-	22,605
Debtors	58,992	-	-	1,941	60,933	65,947	-	-	1,508	67,455
Cash at bank and in hand	26,468	-	-	-	26,468	23,395	-	-	-	23,395
Current assets	106,871	-	-	1,941	108,812	111,947	-	-	1,508	113,455
Creditors: amounts falling due within one year	(103,721)	-	(347)	2	(104,066)	(86,465)	-	(57)	5	(86,517)
Net current assets	3,150	-	(347)	1,943	4,746	25,482	-	(57)	1,513	26,938
Creditors: amounts falling due after more than one year	(529,071)	-	(2,362)	-	(531,433)	(495,040)	-	(1,332)	-	(496,372)
Provisions for liabilities and charges	(8,985)	-	-	(13,369)	(22,354)	(9,834)	-	-	(7,212)	(17,046)
Defined benefit pension scheme deficit	(331)	-	-	-	(331)	-	-	-	-	-
Net assets	236,053	(5,222)	(2,652)	128	228,307	262,310	(240)	(1,332)	3	260,741
Capital and reserves										
Share capital	410,961	-	-	-	410,961	410,961	-	-	-	410,961
Profit and loss reserve	(174,746)	(5,222)	(2,652)	128	(182,492)	(148,635)	(240)	(1,332)	3	(150,204)
Non-controlling interests	(162)	-	-	-	(162)	(16)	-	-	-	(16)
Total shareholders' funds	236,053	(5,222)	(2,652)	128	228,307	262,310	(240)	(1,332)	3	260,741