IDH Finance plc

Quarterly Financial Report
3 months ended 30 June 2016

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 2016 which are maintained in accordance with International Financial Reporting Standards as adopted by the European Union ('IFRS') . The interim results are not necessarily indicative of the results to be expected for the full year.

We have presented certain non-IFRS information in this quarterly report. This information includes "EBITDA" and other measures derived therefrom. EBITDA represents earnings before interest, tax, depreciation, amortisation and non-underlying 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 2015. 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 2016 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

- Revenue for the three months ended 30 June 2016 ("Q1 FY17") was £143.4m. Year on year revenue growth, predominantly driven by acquisitions, was 5.8%.
- Q1 FY17 like-for-like private revenue growth of 10.0%.
- Q1 FY17 gross margin percentage of 46.0% compared to 45.7% in the three months to 30 June 2015 ("Q1 FY16").
- Overheads, excluding depreciation, goodwill amortisation and non-underlying items, as a percentage of revenue was 33.7%, compared to 32.9% in Q1 FY16.
- EBITDA before non-underlying items for the three months ended 30 June 2016 of £18.1m (12.6% of revenue), 1.9% ahead of the three months to 30 June 2015 (£17.7m, 13.1% of revenue).
- UDA delivery down c.5% year-on-year, year to date.
- LTM EBITDA of £80.5m; and estimated pro-forma adjusted LTM EBITDA of £85.6m.
- Two practices were acquired during the quarter – total practices at 30 June were 674.
- Total consideration for practice acquisitions including deferred consideration for prior year purchases, was £2.5m.
- Cash generated from operations of £19.8m (Q1 FY16: £20.6m).
- Maintenance capital expenditure for the quarter ended 30 June 2016 was £5.3m.
- Normalised cash conversion adjusting for one-off items in working capital and maintenance capital expenditure was 102.3%.
- Cash and cash equivalents at 30 June 2016 of £21.9m and net debt was £510.6m.
- Gearing levels are 6.34 times and 5.97 times LTM EBITDA and estimated pro-forma adjusted LTM EBITDA respectively.
- 'mydentist' brand rolled out to 451 practices as of 30 June 2016.
- Bonds and SSRCF re-financed in August 2016 with issue of £425m of new senior notes due 2022; £130m new second lien notes due 2023; and new £100m SSRCF.

NB: Comparative information for the quarter ended 30 June 2015 restated in accordance with IFRS.

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 2016.

IDH is the leading provider of dental services in the United Kingdom with a network of 674 dental practices throughout England, Scotland, Wales and Northern Ireland.

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 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 2015 to 31 March 2016 and for the quarter ended 30 June 2016 are provided below:

Key performance indicators	(1)	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017
Turnover (£m)		135.5	139.2	144.4	146.7	143.4
EBITDA (£m)		17.7	19.6	22.0	20.8	18.1
LTM EBITDA (£m)		76.8	76.9	80.4	80.2	80.5
Operating profit (£m)		0.5	1.7	3.3	6.0	3.7
NHS dentistry services as a percentage of revenue		68.4%	68.0%	68.7%	68.1%	66.4%
Private dentistry services as a percentage of revenue		14.9%	15.5%	15.4%	15.2%	16.4%
Practice services as a percentage of revenue		16.7%	16.5%	15.9%	16.7%	17.2%
Like-for-like private revenue growth		10.4%	14.2%	13.0%	8.2%	10.0%
Gross profit margin %		45.7%	45.8%	45.8%	45.4%	46.0%
Overheads as a percentage of revenue		32.9%	32.0%	30.9%	31.6%	33.7%
EBITDA margin %		13.1%	14.1%	15.2%	14.2%	12.6%
Number of dental practices		651	666	669	672	674
Maintenance capital expenditure (£m)		5.9	4.6	5.9	5.8	5.3
Cash conversion after maintenance capital expenditure %	(2)	100.2%	95.7%	73.3%	96.6%	97.2%
Estimated pro-forma adjusted EBITDA (£m)		83.3	83.9	85.9	87.2	85.6

(1) Restated in accordance with IFRS.

(2) Normalised cash conversion, after adjusting for one-off items in working capital and maintenance capital expenditure in Q1 FY17 was 102.3% (Q1 FY16: 110.7%).

During the quarter, we acquired two dental practices for a total of 674 dental practices in our estate as at 30 June 2016 (30 June 2015: 651).

Revenue

Group revenue increased by £7.9m, or 5.8%, from £135.5m for the three month period ended 30 June 2015 ("Q1 FY16") to £143.4m for the three month period to 30 June 2016 ("Q1 FY17").

Revenue derived from dental practices increased by £6.0m from £112.9m to £118.8m. Revenue from our Practice Services division, after the elimination of intragroup trading, increased by £1.9m from £22.7m in Q1 FY16 to £24.6m in Q1 FY17.

Group revenue	Q1 2017	Q1 2016	Movement
	£'000	£'000	£'000
Practices owned as at 1 April 2015	113,402	112,492	910
Practices acquired or opened:			
During the 12 months ended 31 March 2016	5,303	362	4,941
During the 3 months ended 30 June 2016	102	-	102
Dental practice revenue	118,807	112,854	5,953
Practice services and other revenue	24,584	22,678	1,906
Group revenue	143,391	135,532	7,859

Revenue of £5.3m was contributed by the 35 practices acquired or opened during the period 1 April 2015 to 31 March 2016 ("FY16 acquisitions") in the quarter ended 30 June 2016, a £4.9m increase over the £0.4m contributed by the nine practices acquired or opened in the first three months of the last financial year. The two practices acquired during the first quarter of FY17 ("FY17 acquisitions") contributed an additional £0.1m.

NHS revenue

NHS revenue for the quarter ended 30 June 2016 was £95.3m, an increase of £2.6m or 2.8% from £92.6m in Q1 FY16.

This increase was principally due to the impact of acquisitions with £3.7m generated by FY16 and FY17 acquisitions.

NHS revenue generated from practices owned at 1 April 2015 reduced from £92.3m to £91.2m. The decrease is principally due a lower level of UDA performance in the quarter when compared to FY16, partially offset by the 0.7% NHS dentistry contract uplift applied to the contracted Units of Dental Activity ("UDA") in England from 1 April 2016.

UDA delivery rates in our patient services division have continued to decline. We are implementing initiatives to recover UDA performance including providing training to improve UDA productivity through improving diary and claim management, working with dentists, including through incentivisation, to increase their working hours and looking to recruit more locums and dentists to increase delivery capacity.

Private revenue

Private revenue for the quarter ended 30 June 2016 was £23.6m, 16.5% higher than £20.2m for the equivalent period in FY16.

Like-for-like practices increased private sales by £2.0m, or 10.0%, with acquired practices generating £1.4m additional private revenue. Private revenue growth continues to reflect the benefits from increasing the range of treatment options available to our patients, the offering of additional services and price increases.

Practice services revenue

Revenue of £24.6m (Q1 FY16: £22.7m) has been generated from The Dental Directory, dbg and other services. The increase of £1.9m principally reflects the contributions from Med-FX Limited (‘Med-FX’), which was acquired in August 2015, along with PDS Dental Laboratories Leeds Limited (‘PDS’) and Dolby Medical Limited (‘Dolby’), both of which were acquired in March 2016.

Cost of sales

Gross margin for the quarter ended 30 June 2016 was 46.0% a 0.3% increase from 45.7% in the quarter ended 30 June 2015. Patient services gross margin for Q1 FY17 was 47.9% (Q1 FY16: 48.3%) and gross margin in our practice services division was 30.7% (Q1 FY16: 29.6%).

Cost of sales increased by £3.8m, or 5.1%, from £73.7m to £77.4m for the quarter ended 30 June 2016. The increase in the cost of sales is principally due to the impact of acquisitions, with the FY16 and FY17 practice acquisitions increasing Patient Services cost of sales by £2.6m and the acquisitions of Med-FX, PDS and Dolby increasing Practice Services cost of sales by £0.7m.

Volatility in the value of the Pound against the Euro and US Dollar following the EU referendum has not had an impact on this quarter due to the supply chain and hedging policies, however further volatility could have an impact on the cost of sales of our Practice Services division because c40% of the division’s purchases are made on a wholesale basis in Euros or US Dollars.

The drop in Patient Services gross margin to 47.9% reflects the benefit of the 0.7% NHS contract uplift but which has been diluted by higher levels of locum usage compared to the previous year, although further cost savings have been achieved against materials.

Overheads

Overheads, including administrative expenses, distribution costs, amortisation of intangible assets, depreciation, grant income and other non-underlying items were £63.2m for Q1 FY17, an increase of £1.7m from £61.5m in the three months to 30 June 2015.

Overheads excluding amortisation of intangible assets, depreciation, grant income and other non-underlying items were £48.4m, an increase of £3.8m from £44.6m in Q1 FY16.

The increase in overheads is primarily due to acquisitions, including Med-FX, PDS and Dolby, along with the dental practices acquired in the year ended 31 March 2016 and the three months ended 30 June 2016. The Practice Services division has also increased headcount at the support centre to roll-out new initiatives. These increases are partially offset by the reductions in Patient Services support centre and practice headcount made towards the end of Q2 FY16.

The group’s largest overhead is the cost of staff working in dental practices, in operational management and at the divisional support centres. In the quarter ended 30 June 2016, staff costs were £31.0m, an increase of £1.8m from £29.2m in Q1 FY16.

Rent expense for the quarter was £3.7m, 2.6% of revenue and an increase of £0.4m from £3.3m in Q1 FY16. The increase was principally due to the growth in the number of practices.

Dental equipment and practice property maintenance costs for Q1 FY17 were £2.8m, £0.2m higher than Q1 FY16 due to the larger practice estate.

Other operating income

Other operating income for the three months ended 30 June 2016 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.

Other gains/(losses)

Other gains/(losses) include realised and unrealised foreign exchange gains arising in the group's Practice Services division, principally in relation to foreign exchange forward contracts which are used to hedge the cash impact of a proportion of the cost of goods purchased in Euros and US Dollars.

EBITDA before non-underlying items

Earnings before interest tax, depreciation, amortisation and non-underlying items for the three months ended 30 June 2016 was £18.1m.

Non-underlying items

Non-underlying items of £1.6m include the costs associated with the 'mydentist' re-branding. As at 30 June 2016, the 'mydentist' brand had been rolled out to 451 sites. Non-underlying items also includes fees and expenses incurred in respect of acquisitions completed during the quarter.

Estimated pro-forma adjusted LTM EBITDA

	£'000
LTM EBITDA before exceptional items at 30 June 2016	80,483
Estimated adjusted EBITDA of acquired dental practice at 30 June 2016	2,442
Estimated adjusted EBITDA of Med-FX, PDS Dental Laboratories and Dolby Medical	756
Reversal of one off VAT grouping adjustment	410
Pro-forma EBITDA	84,091
Cost savings initiatives	1,210
VAT grouping savings	265
Estimated pro-forma adjusted EBITDA	85,566

Estimated pro-forma adjusted LTM EBITDA has been calculated following the methodology set out in the IDH Finance plc Offering Memorandum dated 22 July 2016.

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

Finance costs

Finance costs of £9.7m includes £7.7m 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 payable in respect of the Super Senior Revolving Credit Facility. The remaining £0.1m arises from the unwinding of discount in respect of contingent consideration and certain provisions which are expected to be settled in future periods.

Finance income of £0.2m principally arises from the unrealised mark-to-market movement in the value of the group's interest rate swap contracts.

Debt and liquidity

At 30 June 2016, net debt was £510.6m, compared to £516.9m at 31 March 2016. This movement reflects an increase in cash balances of £6.9m during the quarter, offset by the amortisation of facility arrangement fees.

Net cash flow for the quarter was an inflow of £6.9m. This reflects cash generated from operating activities of £19.8m, offset by expenditure of £2.5m on acquisitions, capital expenditure of £6.1m, including the refurbishment of acquisition sites, and £4.3m for the servicing of finance.

For a description of our debt capital structure following our re-financing, see "Post balance sheet events below".

Working capital movements

Cash generated from operations reduced from £20.6m in Q1 FY16 to £19.8m due to the one-off benefit in FY16 from a change in payment timings to dental associates.

Capital expenditure

Capital expenditure for Q1 FY17 was £6.1m. This included acquisition refurbishments of £0.8m and "maintenance" capital expenditure of £5.3m.

Maintenance capital expenditure includes £0.9m for the merger and relocation to new premises of existing practices in Banbury and Keighley.

Cash conversion

Cash conversion is measured as the ratio of EBITDA to cash generated from operations less maintenance capital expenditure and for the quarter was 97.2% compared to 100.2% in the corresponding quarter in FY16.

Cash conversion benefitted in the previous year from the change in payment terms to dental associates noted above, along with the timing of payments and receipts within the Practice Services division. However, the reduced cash conversion seen in the three months ended 30 June 2016 is also partially mitigated by a lower level of maintenance capital expenditure when compared to the quarter ended 30 June 2015. This principally reflects a reduction in capital expenditure relating to the 'mydentist' re-branding following completion of the largest elements of the programme in FY16.

Cash conversion was also reduced by expenditure on the Banbury and Keighley relocation projects. After taking this into account, normalised cash conversion was 102.3% for the quarter (Q1 FY16: 110.7%).

Cash conversion excluding working capital movements was 70.6% (Q1 FY16: 66.6%).

Acquisitions

Acquisitions capital expenditure in the quarter was £2.5m and included the acquisition of two dental practices and the payment of deferred consideration relating to prior year purchases.

Post balance sheet events

Following the close of Q1 FY17, the company has re-financed the notes outstanding at the quarter end through the issue of a new set of instruments. The company issued

- £275m of 6.25% Senior Secured Fixed Rate notes due 2022.
- £150m of Senior Secured Floating Rate notes due 2022. The notes have a floating rate of GBP LIBOR plus 6%.
- £130m of Second Lien Notes due 2023. The notes have a floating rate of GBP LIBOR (subject to a minimum floor of 1%) plus 8%.

The Senior Secured Fixed Rate notes and the Second Lien Notes were issued at 100%. The Senior Secured Floating Rate notes were issued at 99.5%.

The group has also agreed a new £100m Super Senior Revolving Credit Facility.

Risk factors

The latest opportunity and risk position of the group is detailed in the Annual Report to bondholders for Turnstone Midco 2 for the year ended 31 March 2016, as updated by the press release dated 20 July 2016 regarding certain information disclosed to prospective holders of the new Notes. The risk factors and strategies are also set out in the IDH Finance plc Offering Memorandum dated 22 July 2016.

Following the UK referendum on EU membership on 23 June 2016, the risk factor relating to the referendum is re-printed here for information.

The result of the United Kingdom's referendum on withdrawal from the European Union may have a negative effect on global economic conditions, financial markets and our business.

We are a United Kingdom-based company and operate principally within the United Kingdom. In June 2016, a majority of voters in the United Kingdom elected to withdraw from the European Union in a national referendum. The referendum was advisory, and the terms of any withdrawal are subject to a negotiation period that could last at least two years after the government of the United Kingdom formally initiates a withdrawal process. The referendum result has created significant uncertainty about the future relationship between the United Kingdom and the European Union, including with respect to the laws and regulations that will apply as the United Kingdom determines which European Union-derived laws to replace or replicate in the event of a withdrawal. Depending on the terms of the withdrawal, the United Kingdom could lose access to the single EU market and to the global trade deals negotiated by the European Union on behalf of its members which could affect the attractiveness of the United Kingdom as a global investment centre and detrimentally impact UK growth. These developments, or the perception that any of them could occur, have had and may continue to have a material adverse effect on global economic conditions and the stability of global financial markets, and could significantly reduce global market liquidity and restrict the ability of key market participants to operate in certain financial markets. Asset valuations, currency exchange rates and credit ratings may be especially subject to increased market volatility. Volatility in the value of the pound against the euro and the dollar following the referendum has had, and could continue to have, a negative impact on the cost of sales for our practice services division because a significant proportion of our practice services division's supplies are purchased on a wholesale basis in euros and dollars. The withdrawal of the United Kingdom from the European Union may also make it more difficult for us to source dentists from outside the United Kingdom as a result of changes to UK border and immigration policy. In addition, if the United Kingdom does eventually leave the European Union, Scotland may have a second referendum on independence from the United Kingdom. A vote by Scotland to leave the United Kingdom could raise risks for our dental practices in Scotland. Any of these risks could have an adverse effect on our business, financial condition, results of operations and prospects.

Turnstone Midco 2 Limited

Condensed interim consolidated financial statements – Unaudited

Quarter ended 30 June 2016

Consolidated income statement (unaudited)

For the quarter ended 30 June 2016

	Note	Q1 2017 £'000	Q1 2016 £'000
Revenue	4	143,391	135,532
Cost of sales		(77,433)	(73,651)
Gross profit	4	65,958	61,881
Distribution costs		(4,249)	(3,554)
Administrative expenses		(58,937)	(57,918)
Other operating income		479	454
Other gains/(losses)		433	(317)
Operating profit	4	3,684	546
EBITDA before non-underlying items	4	18,063	17,734
Amortisation of intangible assets		(8,159)	(7,735)
Depreciation		(5,070)	(4,533)
Amortisation of government grant income		19	54
Other non-underlying items		(1,602)	(4,657)
Foreign exchange gains/(losses)		433	(317)
Operating profit	4	3,684	546
Finance costs		(9,661)	(9,641)
Finance income		193	755
Net finance costs		(9,468)	(8,886)
Loss before income tax	4	(5,784)	(8,340)
Income tax credit	5	1,062	1,859
Loss for the period		(4,722)	(6,481)
Attributable to:			
Owners of the parent		(4,727)	(6,438)
Non-controlling interests		5	(43)
		(4,722)	(6,481)

There are no items of other comprehensive income during the current or previous period other than those stated above and therefore no separate statement of comprehensive income has been presented.

Consolidated balance sheet (unaudited)

At 30 June 2016

	Note	Q1 2017 £'000	Q1 2016 £'000
Non-current assets			
Goodwill	*8*	339,283	326,189
Other intangible assets	*8*	446,320	453,965
Property, plant and equipment		101,048	92,169
Other receivables		-	958
Deferred tax income tax assets		9,741	11,192
		896,392	884,473
Current assets			
Inventories		20,932	21,411
Trade and other receivables		49,318	48,749
Current income tax		-	550
Derivative financial instruments		1,000	-
Cash and cash equivalents		21,852	26,468
		93,102	97,178
Assets classified as held for sale		265	2,079
Total assets		989,759	983,730
Equity attributable to the owners of the parent			
Share capital		410,961	410,961
Accumulated losses		(139,631)	(123,379)
		271,330	287,582
Non-controlling interest		94	(162)
Total equity		271,424	287,420
Non-current liabilities			
Borrowings	*7*	532,498	521,470
Other payables	*6*	1,634	6,949
Deferred income tax liabilities		50,201	53,936
Post employment benefits		-	414
Provisions		7,299	7,158
Derivative financial instruments		1,844	2,362
Total non-current liabilities		593,476	592,289
Current liabilities			
Trade and other payables	*6*	122,782	101,686
Current income tax		277	161
Provisions		1,708	1,827
Derivative financial instruments		92	347
Total current liabilities		124,859	104,021
Total liabilities		718,335	696,310
Total equity and liabilities		989,759	983,730

Consolidated statement of changes in equity (unaudited)

For the quarter ended 30 June 2016

Q1 2017

	Share capital	Retained earnings	Total equity attributable to the owners of the parent	Non-controlling interest	Total equity
	£'000	£'000	£'000	£'000	£'000
Balance at beginning of the period	410,961	(134,904)	276,057	89	276,146
Comprehensive expense for the period					
Total comprehensive expense for the period	-	(4,727)	(4,727)	5	(4,722)
Balance at end of the period	410,961	(139,631)	271,330	94	271,424

Q1 2016

	Share capital	Retained earnings	Total equity attributable to the owners of the parent	Non-controlling interest	Total equity
	£'000	£'000	£'000	£'000	£'000
Balance at beginning of the period	410,961	(116,941)	294,020	(119)	293,901
Comprehensive expense for the period					
Total comprehensive expense for the period	-	(6,438)	(6,438)	(43)	(6,481)
Balance at end of the period	410,961	(123,379)	287,582	(162)	287,420

Consolidated cash flow statement (unaudited)

For the quarter ended 30 June 2016

	Q1 2017 £'000	Q1 2016 £'000
Cash flows from operating activities		
Loss before taxation	(5,784)	(8,340)
Depreciation of property, plant and equipment	5,070	4,533
Amortisation of government grants	(19)	(54)
Amortisation of intangible assets	8,159	7,735
Finance costs	9,661	9,641
Finance income	(193)	(755)
Loss on business and asset disposals	2	432
Differences between contingent consideration paid and initial estimates	(91)	(67)
Net unrealised foreign exchange (gains)/losses	(261)	317
Cash generated from operations before movements in working capital	16,544	13,442
Changes in working capital		
Movement in inventories	(381)	817
Movement in trade and other receivables	529	(6,534)
Movement in trade and other payables	3,534	13,248
Movement in provisions	(425)	(363)
Cash generated from operations	19,801	20,610
Taxation	-	-
Net cash inflow from operating activities	19,801	20,610
Cash flows from investing activities		
Acquisitions (net of cash acquired)	(2,478)	(11,895)
Purchase of property, plant and equipment	(6,071)	(7,129)
Proceeds from business and asset disposals	(2)	(1)
Government grants received	-	(4)
Interest received	4	14
Net cash flow from investing activities	(8,547)	(19,015)
Cash flows from financing activities		
Bank and bond interest paid	(4,344)	(4,243)
Net cash outflow from financing activities	(4,344)	(4,243)
Net increase/(decrease) in cash and cash equivalents	6,910	(2,648)
Cash and cash equivalents at the beginning of the period	14,942	29,116
Cash and cash equivalents at the end of the period	21,852	26,468

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

For the quarter ended 30 June 2016

	Q1 2017	Q1 2016
	£'000	£'000
Increase/(decrease) in cash for the period	6,910	(2,648)
Total cash movement in net debt	6,910	(2,648)
Amortisation of loan arrangement fees	(630)	(630)
Total non-cash movement in net debt	(630)	(630)
Total movement in net debt	6,280	(3,278)
Net debt brought forward	(516,926)	(491,724)
Net debt carried forward	(510,646)	(495,002)

Notes

Forming part of the financial statements

1 General information and basis of preparation

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 interim consolidated financial statements (the 'interim financial statements') of the company have been prepared for the quarter ended 30 June 2016. Comparative results are provided for the quarter ended 30 June 2015.

The interim financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ('IFRS') and, specifically, IAS 34 'Interim Financial Reporting'. The interim financial statements are presented in thousands of pounds sterling (£'000's) except where otherwise stated. Pounds sterling is the functional currency of both Turnstone Midco 2 Limited and Turnstone Equityco 1 Limited.

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

These interim financial statements do not include all of the disclosure information required in annual financial statements prepared in accordance with IFRS and should therefore 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 2016, both of which are available from our website, www.mydentist.co.uk.

2 Significant accounting policies

The interim financial statements have been prepared on the basis of the accounting policies set out in the 2016 annual report and consolidated financial statements for Turnstone Midco 2 Limited and Turnstone Equityco 1 Limited.

a) Basis of consolidation

Subsidiaries

The group controls an entity when the group has power over that entity, is exposed to or has rights to variable returns from its involvement with the entity and has the ability to affect these returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases. The group has applied IFRS 10 – Consolidated Financial Statements ('IFRS 10') retrospectively in accordance with the transitional provisions of IFRS 10.

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

Transactions eliminated on consolidation

Intragroup balances, and any gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial information. Losses are eliminated in the same way as gains, but only to the extent that there is no evidence of impairment.

b) Foreign currency translation

Foreign currency transactions are translated into the functional currency of each subsidiary or partnership using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions, including realised gains and losses arising from foreign exchange forward contracts and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement within other gains or losses.

Unrealised gains and losses arising from derivative financial instruments used to hedge against movements in foreign exchange rates (principally foreign exchange forward contracts) are recognised in the income statement within other gains or losses.

c) Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The fair value of consideration of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the group in exchange for control over the acquiree. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 – Business Combinations (Revised) ('IFRS 3') are recognised at their fair values at the acquisition date. All acquisition costs are expensed as incurred and included within administrative expenses.

Any contingent consideration to be transferred by the group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration are recognised at fair value through profit or loss.

d) Intangible assets

Goodwill

Goodwill represents the excess of the fair value of consideration paid on acquisition of a business over the fair value of assets, including any intangible assets identified, liabilities and contingent liabilities acquired.

Goodwill is tested for impairment at least annually.

On disposal of a subsidiary, the attributable net book value of goodwill, based on relative fair value, is included in the determination of the profit or loss on disposal.

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. The amortisation expense is included within administrative expenses in the income statement.

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

Notes

Forming part of the financial statements

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. The intangible assets arising from these contractual arrangements are amortised over a period of 20 years to reflect the potential for future changes to government policy in this area.

e) Impairment of non-financial assets

The carrying amounts of the group's non-financial assets, other than inventories and deferred income tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated at the same time in each period.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to dispose. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the 'cash-generating unit'or 'CGU'). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to CGU's. Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGU's to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised through the income statement. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

Notes

Forming part of the financial statements

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

f) Derivative financial instruments

The group's activities expose it to the financial risks resulting from fluctuations in interest rates and foreign exchange rates.

The group uses derivative financial instruments (interest rate swaps) to hedge a proportion of its exposure to floating interest rate fluctuations. Foreign exchange forward contracts are used to hedge a proportion of the group's exposure to fluctuations in foreign exchange rates.

In addition, in a very small number of instances, the group has entered into option contracts with the vendors of businesses in which the group has acquired a majority shareholding in order to enable the group to acquire the remaining equity interest at a pre-determined price, or by reference to a pre-determined earnings multiple, in the future.

The group does not hedge account for any derivative financial instruments.

The use of financial derivatives is governed by the group's policies approved by the Board of Directors, which provide written principles in the use of financial derivatives consistent with the group's risk management strategy. The group does not use derivative financial instruments for speculative purposes.

g) Revenue

Revenue represents the income received in the ordinary course of business for dentistry or other goods or services provided to the extent that the group has obtained the right to consideration. Amounts are stated net of discounts, returns and value added taxes. Revenue derived from NHS contracts in England and Wales is recognised on the volume of dental activity delivered in the financial year. Revenue from all private dental work and NHS patients in Scotland is recognised based upon 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. Revenue from the sale of goods by the group's practice services division is recognised upon despatch.

Deferred income

Where the group receives an amount upfront in respect of future income streams, the value of the receipt is amortised over the period of the contract as the services are delivered and the unexpired element is disclosed in trade and other payables as deferred income.

h) Leases

The costs associated with operating leases are charged to the income statement on an accruals basis over the period of the lease. The benefit of any lease incentives is recognised in the income statement evenly over the period of the lease up to the lease expiry date.

Notes

Forming part of the financial statements

i) Income tax

Income tax for the accounting periods presented comprises current and deferred income tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current income tax is the expected tax payable or refundable on the taxable income or loss for the year, based upon the tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred income tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of other assets or liabilities that affect neither accounting nor taxable profit; nor differences relating to investments in subsidiaries to the extent that they are unlikely to reverse in the foreseeable future. The amount of deferred income tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred income tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred income tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except for on deferred income tax liabilities where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future.

Notes

Forming part of the financial statements

3 Critical accounting judgements and estimates

The preparation of the group's consolidated financial information under IFRS requires the Directors to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities. Estimates and judgements are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The Directors consider that the following estimates and judgements are likely to have the most significant effect on the amounts recognised in the consolidated financial information.

(a) Critical judgements

Impairment of goodwill and other intangibles

Determining whether goodwill or other intangible assets are impaired requires an annual estimation of the value in use of the CGUs to which goodwill and other intangible assets have been allocated. The value in use calculation requires the group to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate present value. An impairment review was performed at 31 March 2016 and no impairment was identified.

Management have considered whether there are indicators of impairment present at the end of Q1 in light of the UDA delivery performance and have determined that there is no requirement for a full impairment review given the nature of the annual contract means that shortfalls can be recovered and that future year's cash flows will recover to historic long term delivery rates.

Income tax

The current income tax provision directly relates to the actual tax payable on the group's profits. Assumptions and judgements are made in applying tax laws to the taxable profits in any given period in order to calculate the tax charge for that year. Where the eventual tax paid or reclaimed is different to the amounts originally estimated, the difference will be charged or credited to the income statement in the period in which it is determined.

(b) Critical estimates

Valuation of intangibles acquired in business combinations

Determining the fair value of contractual arrangements and customer relationships acquired in business combinations requires estimation of the value of the cash flows related to those arrangements or relationships and a suitable discount rate in order to calculate the present value.

Determining the fair value of brands or trademarks acquired in business combinations requires estimation of the discounted royalty payments that would have to be paid to acquire the brand or trademark if it had not been acquired as part of a business combination.

Useful economic lives of intangible assets

Intangible assets are amortised over their useful economic lives. Useful lives are based on management's estimates of the period over which the assets will generate revenue. Useful lives are periodically reviewed for their continued appropriateness. Changes to estimates can result in changes in the carrying values and hence change the amounts charged to the income statement in particular periods which could be significant.

Notes

Forming part of the financial statements

4 Segment reporting

The Directors have determined the operating segments based on the operating reports reviewed by both the Board of Directors and the Executive Management Team that are used to facilitate both performance and strategic decision making. The Executive Management Team is considered to be the chief operating decision maker in accordance with the requirements of IFRS 8 – Operating Segments.

The Executive Management Team considers the business to be split into two main operating segments being patient services and practice services.

Through its patient services division, the group is the leading provider of dental services in the United Kingdom. The division owns and manages a national chain of dental practices with 674 sites at 30 June 2016 (30 June 2015: 651).

The group's practice services division, which principally comprises the dbg and The Dental Directory, provides a range of products and services to the dental and wider healthcare sectors, including to the group's patient services division. Sales to the patient services division are carried out on an arms-length basis.

All services are provided in the United Kingdom.

Notes

Forming part of the financial statements

4 Segment reporting *(continued)*

Q1 2017	Patient services	Practice services	Central costs and intra-segment eliminations	Total
	£'000	£'000	£'000	£'000
Revenue				
NHS dentistry	95,255	-	-	95,255
Private dentistry	23,552	-	-	23,552
Practice services	-	32,584	(8,000)	24,584
Total revenue	118,807	32,584	(8,000)	143,391
Gross profit	56,962	10,005	(1,009)	65,958
Gross margin	*47.9%*	*30.7%*		*46.0%*
Overheads	(40,924)	(8,063)	613	(48,374)
Overheads % of revenue	*34.4%*	*24.7%*		*33.7%*
Other income	479	-	-	479
EBITDA before non-underlying items	16,517	1,942	(396)	18,063
EBITDA margin	*13.9%*	*6.0%*		*12.6%*
Amortisation of intangible assets	(7,326)	(833)	-	(8,159)
Depreciation	(4,677)	(421)	28	(5,070)
Amortisation of government grant income	19	-	-	19
Other non-underlying items	(1,414)	(188)	-	(1,602)
Foreign exchange gains	-	433	-	433
Segment operating profit/(loss)	3,119	933	(368)	3,684
Net finance costs				(9,468)
Loss before income tax				(5,784)
Segment assets	881,367	117,239	(8,847)	989,759
Segment liabilities	(159,477)	(114,071)	(444,787)	(718,335)
Additions in the period				
Goodwill	217	46	-	263
Other intangible assets	1,118	-	-	1,118
Property, plant and equipment	6,343	536	(270)	6,609

Notes

Forming part of the financial statements

4 Segment reporting *(continued)*

Q1 2016	Patient services	Practice services	Central costs and intra-segment eliminations	Total
	£'000	£'000	£'000	£'000
Revenue				
NHS dentistry	92,642	-	-	92,642
Private dentistry	20,212	-	-	20,212
Practice services	-	28,593	(5,915)	22,678
Total revenue	112,854	28,593	(5,915)	135,532
Gross profit	54,486	8,473	(1,078)	61,881
Gross margin	*48.3%*	*29.6%*		*45.7%*
Overheads	(39,133)	(6,251)	783	(44,601)
Overheads % of revenue	*34.7%*	*21.9%*		*32.9%*
Other income	454	-	-	454
EBITDA before non-underlying items	15,807	2,222	(295)	17,734
EBITDA margin	*14.0%*	*7.8%*	*5.0%*	*13.1%*
Amortisation of intangible assets	(7,013)	(722)	-	(7,735)
Depreciation	(4,247)	(314)	28	(4,533)
Amortisation of government grant income	54	-	-	54
Other non-underlying items	(4,136)	(521)	-	(4,657)
Foreign exchange losses	-	(317)	-	(317)
Segment operating profit/(loss)	465	348	(267)	546
Net finance costs				(8,886)
Loss before income tax				(8,340)
Segment assets	876,456	114,391	(7,117)	983,730
Segment liabilities	(148,476)	(113,693)	(434,141)	(696,310)
Additions in the period				
Goodwill	3,635	40	-	3,675
Other intangible assets	8,548	-	-	8,548
Property, plant and equipment	7,579	362	(212)	7,729

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5 Taxation

	Q1 2017 £'000	Q1 2016 £'000
Current income tax		
Current income tax for the period	-	-
Total current income tax	-	-
Deferred income tax		
Origin and reversal of temporary differences	(1,062)	(1,859)
Total deferred income tax	(1,062)	(1,859)
Total income tax credit	(1,062)	(1,859)

The main rate of corporation tax was reduced from 21% to 20% from 1 April 2015. Further reductions to 19% from 1 April 2017 and to 18% from 1 April 2020 were substantively enacted on 18 November 2015 and both the deferred income tax asset and liability have been re-measured accordingly.

A further reduction in the main rate of corporation tax to 17% from 1 April 2020 was announced in the Chancellor’s Budget Statement on 16 March 2016. As this change had not been substantively enacted at the balance sheet date, its effect is not included in these financial statements.

6 Trade and other payables

	Q1 2017 £'000	Q1 2016 £'000
Current		
Trade payables	19,001	16,994
Accruals and deferred income	92,360	78,342
Other taxation and social security	4,734	3,817
Contingent consideration	6,632	2,484
Government grants	55	49
	122,782	101,686
Non-current		
Contingent consideration	1,389	6,630
Government grants	245	319
	1,634	6,949

Contingent consideration is due to the vendors of individual acquired practices.

Notes

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7 Borrowings

	Q1 2017 £'000	Q1 2016 £'000
Non-current		
Senior secured, floating rate and second lien notes		
Due between two and five years	500,671	500,949
Bank loans		
Due between two and five years	39,000	30,500
Less: unamortised arrangement fees and related costs	(7,173)	(9,979)
Total non-current loans and borrowings	532,498	521,470

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 30 June 2016, 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 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 as a non-current liability in the consolidated statement of financial position under the heading ‘Derivative financial instruments’.

Following the quarter end, the group has issued:

- £275m of 6.25% Senior Secured Fixed Rate Notes due 2022 at 100%;
- £150m of Senior Secured Fixed Rate Notes due 2022. The notes are set at a floating rate of GBP LIBOR (set at a minimum of 0%) plus 6% each quarter;
- £130m of Second Lien Notes due 2023. The Second Lien Notes are set at a floating rate of GBP LIBOR (set at a minimum of 1%) plus 8%;

The proceeds of the issue have been used to repay the outstanding notes including redemption costs and professional fees and the outstanding drawings from the Super Senior Revolving Credit Facility.

A new £100m Super Senior Revolving Credit Facility has been agreed with an interest charge of GBP LIBOR plus 3.5%.

Notes

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8 Business combinations

Set out below are details of the acquisitions completed during the quarter ended 30 June 2016, which comprised of two incorporated dental practices acquired by the group's patient services division. The directors consider each of these acquisitions to be individually immaterial to the group, having considered a number of qualitative and quantitative factors. Therefore, these acquisitions have been aggregated for disclosure purposes.

	Q1 2017 Total £'000
Consideration	
Cash	1,443
Total consideration	1,443
Fair value of assets and liabilities acquired	
Intangible assets	1,118
Deferred taxation	(201)
Provisions	(10)
Total identifiable net assets/(liabilities)	907
Goodwill	536
Total	1,443