

Integrated Dental Holdings

Q1 FY 2017 Quarterly Results - Investor presentation
23 August 2016



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“We are Europe’s largest vertically integrated dental business focused on delivering the best possible patient care, highest clinical standards and a comprehensive choice of treatment through our growing UK practice network.”

Agenda



- Q1 performance
- Patient Services developments
- NHS performance
- Practice Services developments
- Q1 2017 financial review
- Current trading and outlook
- Appendices
 - New contract options
 - UDA contract accrual repayment process

Q1 FY2017 Group performance



Focus on strategic execution

- Revenue growth 5.8% YoY to £143.4m
- EBITDA growth 1.9% YoY to £18.1m
- Private revenue LFL growth of 10.0%
- NHS revenues remain challenged but mitigating action continues. Private revenue growth and contract uplifts help offset the decline in UDA delivery rates
- Focus on initiatives to recover UDA performance and control costs
- Cash conversion remains strong at 97.2%

Who is mydentist? (“Patient Services”)



- mydentist is the UK's #1 dental chain
- 674 practices nationwide
- 2x the size of the next largest group
- Over 5 million patients through extensive national network
- Practice Services consolidating market position in dental supply and services
- Expansion of offering last year to include facial aesthetics, laboratory services and additional geographic reach in Scotland
- The UK's largest vertically integrated dental company

Q1 FY2017 highlights – Patient Services



NHS market continues to face headwinds

- NHS revenue of £95.3m up £2.6m (2.8%) driven by acquisitions
- After stripping out acquisitions over the last two financial years and the contract uplift of 0.7%, NHS revenue is down £1.7m
- UDA delivery down c.5% YOY YTD
- Fall is due to:
 - Dentist productivity (increased appointment times)
 - Changes in band mix
 - Numbers of exempt patients
- Plans in place to increase UDA delivery via increased productivity, dentist hours and additional recruitment, including locums in the short term
- Unclaimed UDAs result in foregone revenue in a period, but not necessarily a loss of potential revenue for future periods

Q1 FY2017 highlights – Patient Services



Private development

- Continued execution of growth strategy in private
- 16.5% YoY growth in total private revenue
- 10.0% growth in LFL private revenue
- Private treatment now 16.4% of group revenue (Q1 FY2016: 14.9%)
- Continued strong growth in fee per item +10.8% LFL and hygienists +15.0% LFL

Q1 FY2017 highlights – Practice Services



Industry offering continues to develop

- Total revenue including from Patient Services up 13.9% (£4.0m) year-on-year
- Growth driven by acquired businesses – Med-FX, PDS Dental Laboratories and Dolby Medical.
- Encouraging growth in high street and health authority sectors
- Some regional differences in demand
- EU referendum has resulted in potential future foreign exchange exposures, with c.40% of COGS purchased overseas, mainly Euro
- Currency cash flow hedges in place for short term requirements
- Supplier support, selective price increases and cost reductions put in place to mitigate majority of impact

Q1 FY2017 Financial review



Q1 FY2017 Financial highlights



- Revenue up 5.8% to £143.4m
- LFL private revenue up 10.0%
- Private revenue now 16.4% of total revenue (Q1 FY2016: 14.9%)
 - NHS revenue 66.4% of total (Q1 FY2016: 68.4%)
 - Practice services revenue 17.2% of total (Q1 FY2016: 16.7%)
- EBITDA up 1.9% on Q1 FY2016 to £18.1m
- Continued decline in NHS UDA delivery rates
- Debt capital structure refinanced with extension of maturity to 2022/2023

Financial results for Q1 FY2017

Income statement

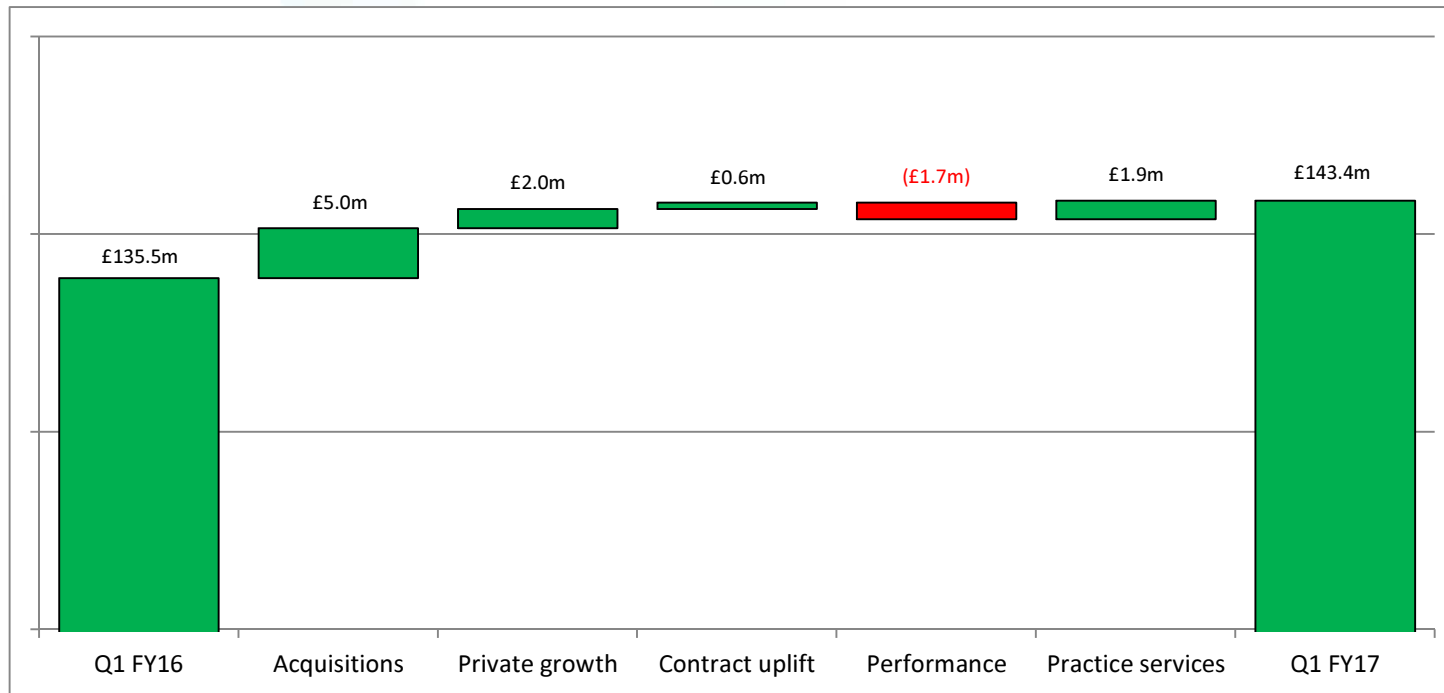


	Q1 2017 £m	% of revenue	Q1 2016 £m	% of revenue	% change
Revenue	143.4		135.5		5.8%
Gross profit	66.0	46.0%	61.9	45.7%	6.6%
Overheads*	(48.4)	33.7%	(44.6)	32.9%	8.5%
Other operating income	0.5	0.3%	0.5	0.3%	5.5%
EBITDA	18.1	12.6%	17.7	13.1 %	1.9%

* Administrative expenses plus distribution costs before depreciation, amortisation and non-underlying items

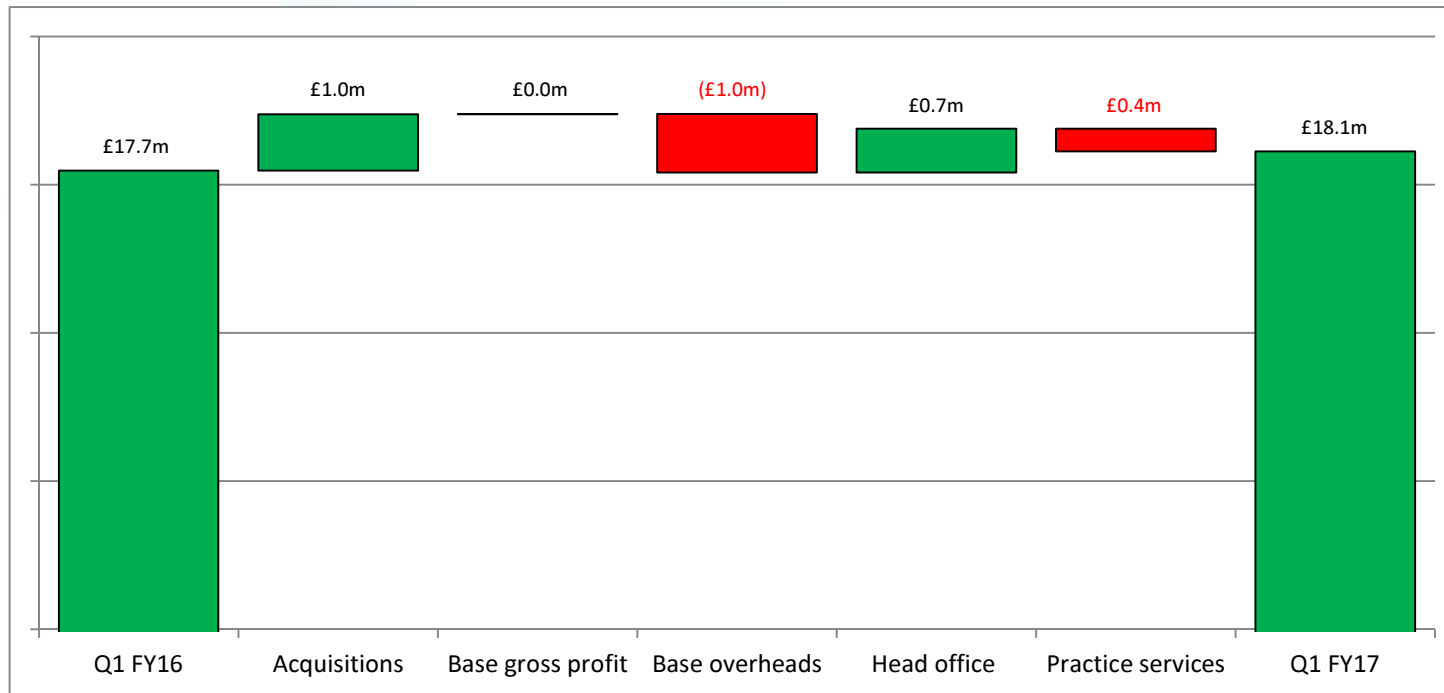
Financial results for Q1 FY2017

Revenue



Financial results for Q1 FY2017

EBITDA



Financial results for Q1 FY2017

Acquisitions



- Total of 674 practices at 30 June 2016 (651 at 30 June 2015)
- 2 practices acquired this year
- Increased multiples experienced in the patient services market particularly in H2 FY 2016 continuing into Q1 FY2017
- Limited acquisition activity likely in FY 2017 due to:
 - Market valuation of practices
 - Group leverage
 - Focus on improving UDA delivery in existing practices

Financial results for Q1 FY2017

Cash flow statement



£m	Q1 2017	Q1 2016
Cash generated from operations	19.8	20.6
Capital expenditure	(6.1)	(7.1)
Corporation tax	-	-
Cash flow before acquisitions and debt service	13.7	13.5
Interest	(4.3)	(4.2)
Acquisitions*	(2.5)	(11.9)
Debt issue costs	-	-
Financing	-	-
Net cash flow	6.9	(2.6)
Opening cash	14.9	29.1
Closing cash	21.8	26.5
Net debt	510.6	495.0

*Excluding fees

Financial results for Q1 FY2017

Cash conversion



£m	Q1 2017	Q1 2016
Operating cash flow	19.8	20.6
Exceptionals	3.1	3.1
Acquisition fees	0.2	0.4
Working capital adjustments	-	0.1
Adjusted operating cash flow	23.1	24.2
Maintenance capital expenditure	(5.3)	(5.9)
Adjustments	0.7	1.3
Adjusted cash flow	18.5	19.6
EBITDA	18.1	17.7
Adjusted cash conversion %	102.3%	110.7%

Financial results for Q1 FY2017

Re-financing



- Notes outstanding at 30 June refinanced through new public senior issue and private placement of new second lien notes
- SSRCF prepaid from new finance and new £100m facility agreed
- New financing
 - £275m 6% Fixed rate notes, due 2022
 - £150m L+6.25% Floating rate notes, due 2022*
 - £130m L+8% Second lien, due 2023**
 - £100m Super Senior Revolving Credit Facility L+3.5%
- SSRCF undrawn at issue
- Cash usage £5.6m for fees, redemption costs

* Floor for LIBOR of 0%

** Floor for LIBOR of 1%

Current trading and outlook



- NHS delivery
- Private growth
- Practice service sales
- Gross margins
- Overheads
- Capital expenditure
- Acquisitions
- Cash conversion

Summary

- Lower NHS UDA performance has continued as expected
- Actions in place but will take time to feed into results
- Solid platform in place to deliver future growth
- Private revenue growth continues
- Practice services growth encouraging
- Acquisitions dependent on the right market conditions

Contact details:

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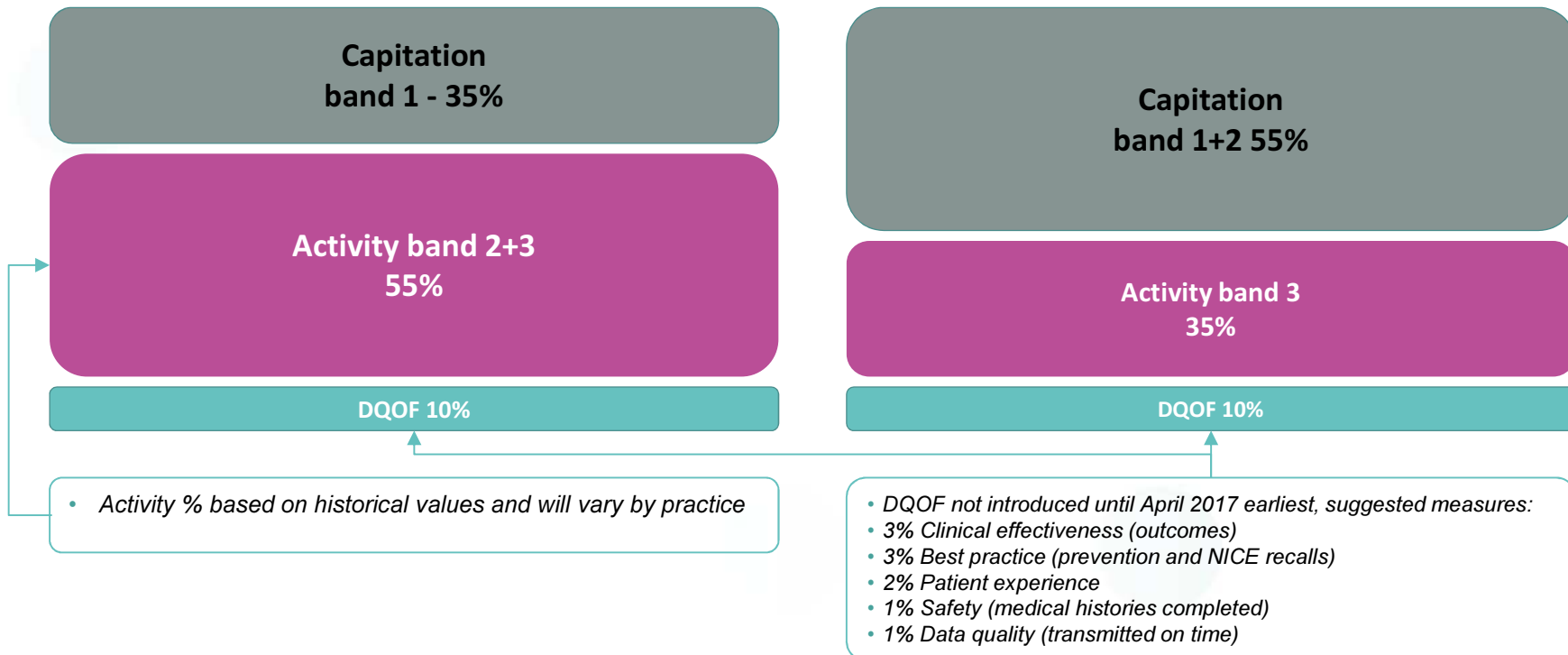
Appendices



Illustrative NHS prototype contract

Reform phased and revenue neutral

Blended remuneration approach: two approaches



Illustrative UDA accruals and repayment

- Below is an illustration of how UDA accruals on the balance sheet would work for an illustrative £120,000 contract with delivery improving from 92.4% to 96.0%
- Whilst improving UDA contract delivery does result in a working capital outflow, it is readily manageable with the strong cash generation underlying each contract

In the following year, 96% of the contract is delivered, with some seasonality through the year

	Opening	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
% of contract paid		8.3%	8.3%	8.3%	8.3%	8.3%	8.3%	8.3%	8.3%	8.3%	8.3%	8.3%	8.3%
% of delivered (actual performance)	92.4%	5.0%	8.0%	8.0%	11.0%	3.0%	6.3%	11.0%	10.0%	3.0%	7.0%	12.0%	12.0%
Opening balance - UDA accrual		9,120	13,139	13,569	13,999	10,840	17,251	19,714	14,276	10,033	14,164	13,510	9,155
Contract paid - current year		10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Contract delivered (actual)		(5,981)	(9,570)	(9,570)	(13,159)	(3,589)	(7,536)	(13,159)	(11,963)	(3,589)	(8,374)	(14,355)	(14,355)
Contract repayment - prior year								(2,280)	(2,280)	(2,280)	(2,280)		
Closing balance - UDA accrual	9,120	13,139	13,569	13,999	10,840	17,251	19,714	14,276	10,033	14,164	13,510	9,155	4,800
Contract paid - current year		10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Operating costs (illustrative 25% margin)		(4,486)	(7,178)	(7,178)	(9,869)	(2,692)	(5,652)	(9,869)	(8,972)	(2,692)	(6,280)	(10,766)	(10,766)
Contract repayment - prior year		-	-	-	-	-	-	(2,280)	(2,280)	(2,280)	(2,280)	-	-
Monthly UDA cashflow (illustrative)		5,514	2,822	2,822	131	7,308	4,348	(2,149)	(1,252)	5,028	1,440	(766)	(766)
<i>Cumulative</i>		5,514	8,336	11,159	11,290	18,598	22,946	20,797	19,545	24,573	26,013	25,246	24,480

At the start of the year, the UDA accrual is 7.6% of the £120k contract (£9.1k), with the other 92.4% having been delivered during the prior year

A twelfth of the contract is paid to the company each month – equivalent to £10k in this illustration

UDAs actually delivered each month are deducted from the accrual – delivery is slightly seasonal (e.g. Christmas)

Amounts owed to the NHS for prior year under-delivery are typically settled during the start of H2 – shown here as 4 equal payments totalling £9.1k

At the end of the year, the business has a UDA accrual representing 4% of the contract 96% delivered)