



**IDH Finance plc**  
Quarterly Financial Report  
3 months ended 30 September 2013

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## 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 six month accounting period to 30 September 2013 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.

The report includes the period prior to the closing of the notes offering by IDH Finance plc, which took place on 30 May 2013 (“closing”).

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 September 2012. 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 2013 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

- Terry Scicluna appointed as Chief Executive Officer on 31 October 2013.
- EBITDA before exceptional items for the three months ended 30 September 2013 (“Q2 FY14”) increased to £15.6m, 18.9% up on the three months to 30 September 2012.
- EBITDA for the financial year to date was £31.0m, 19.9% up on the equivalent period in FY13.
- Year on year turnover growth for Q2 FY14, predominantly driven by acquisitions through the year, was 15.7%. Year to date turnover is 18.1% up on last year.
- Q2 FY14 like-for-like private revenue growth of 7.6%.
- Gross margin percentage up year-on-year: 47.3% to 48.9%.
- Administrative expenses, excluding depreciation and goodwill amortisation, as a percentage of turnover consistent at 33.3%.
- Increase in LTM EBITDA to £61.5m and pro-forma LTM EBITDA to £71.6m.
- 10 practices were acquired and one new site opened by the group during the quarter – total practices increased to 561.
- Operating cash generated of £14.5m.
- Maintenance capital expenditure for the quarter ended 30 September 2013 was £4.4m.
- Normalised cash conversion adjusting for one-off items in working capital and maintenance capital expenditure was 93.8%.
- £9.1m was spent on acquiring practices during the quarter.
- As at 30 September 2013, £5.0m drawn from the Super Senior Revolving Credit Facility.
- Cash and cash equivalents at 30 September 2013 of £20.8m and net debt was £369.9m.
- Gearing levels are 6.01 times and 5.16 times LTM EBITDA and pro-forma LTM EBITDA respectively.

## 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 September 2013.

IDH is the leading provider of dental services in the United Kingdom with a network of 561 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.

### 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 five quarters from 1 April 2012 to 30 June 2013 and for the quarter ended 30 September 2013 are provided below:

Key performance indicators	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	
Turnover (£m)	81.8	84.4	88.3	94.4	98.7	97.6	
EBITDA (£m)	12.7	13.2	14.4	16.1	15.4	15.6	
LTM EBITDA (£m)	56.8	56.2	55.7	56.3	59.0	61.5	
Operating profit (£m)	2.1	3.5	3.5	5.4	4.0	4.0	
NHS dentistry services as a percentage of turnover	(1)	87.3%	87.6%	87.4%	87.8%	85.6%	85.0%
Private dentistry services as a percentage of turnover		12.7%	12.4%	12.6%	12.2%	12.7%	13.3%
Like-for-like private turnover growth		4.5%	1.3%	1.6%	3.9%	5.6%	7.6%
Gross profit margin %		47.4%	47.3%	47.1%	47.7%	47.8%	48.9%
Administrative expenses as a percentage of turnover		32.4%	32.2%	31.3%	31.2%	32.7%	33.3%
EBITDA margin %		15.5%	15.6%	16.3%	17.0%	15.6%	16.0%
Number of dental practices	498	506	514	532	550	561	
Maintenance capital expenditure (£m)		2.2	3.3	2.8	3.5	4.6	4.4
Cash conversion after maintenance capital expenditure %	(2)	85.9%	96.4%	53.3%	73.7%	23.7%	67.6%
Proforma EBITDA (£m)				70.2	70.3	71.6	

(1) Other income streams including Dental Buying Group ("dbg") turnover total £1.6m and represent 1.7% of the Group's turnover in Q2 2014.

(2) Normalised cash conversion, after adjusting for one-off items in working capital and maintenance capital expenditure in Q2 FY14 was 93.8%.

In the quarter ended 30 September 2013, we acquired 10 dental practices and opened one new practice for a total of 561 dental practices in our estate as at the quarter end. In the first half of the financial year we have increased our estate by 29 practices.

### Turnover

Group turnover increased by £13.2m or 15.7% from £84.4m for the three month period ended 30 September 2012 (“Q2 FY13”) to £97.6m for the three month period to 30 September 2013 (“Q2 FY14”). Turnover for the six months of the financial year to the end of September has increased by 18.1% over the equivalent period in 2012 to £196.3m.

Turnover derived from dental practices increased by £11.6m from £84.4m to £96.0m. The remaining £1.6m increase was delivered from new services provided outside of the practice including dbg.

The primary driver in changes in our turnover continues to be the contribution from acquired dental practices:

Dental practice turnover	Q2 2014 £'000	Q2 2013 £'000	Movement £'000
Practices owned as at 1 April 2012	83,602	82,378	1,224
Practice disposals for OFT clearance	-	335	(335)
Practices acquired or opened:			
During the 12 months ended 31 March 2013	7,634	1,695	5,939
During the 6 months ended 30 September 2013	4,759	-	4,759
<b>Total</b>	<b>95,995</b>	<b>84,408</b>	<b>11,587</b>

Turnover of £7.6m was contributed by the 49 practices acquired during the period 1 April 2012 to 31 March 2013 (“FY13 acquisitions”) in the quarter ended 30 September 2013, a £5.9m increase over the £1.7m contributed by the 16 practices acquired or opened in the first half of the last financial year. The 30 practices acquired or opened during Q1 and Q2 FY14 (“FY14 acquisitions”) contributed an additional £4.8m and increased revenue by 5.6%.

### NHS revenue

NHS revenue for the quarter ended 30 September 2013 was £83.0m, an increase of £9.1m and 12.3% from £73.9m in Q2 FY13.

This increase was principally due to the impact of acquisitions with £8.9m generated by FY13 and FY14 acquisitions, offset by a £0.3m revenue decline due to the sale of practices during FY13 under the terms of the Office of Fair Trading (“OFT”) clearance for the merger of IDH and ADP.

Practices owned at 1 April 2012 increased their revenue from NHS contracts from £72.1m to £72.6m due to the 1.50% NHS dentistry contract uplift applied to the contracted Units of Dental Activity (“UDA”) from 1 April 2013, however this was offset by a decrease in activity due to practice management system and network IT issues at the end of September, as described further below.

Included within the NHS Revenue number is £6.3m (Q2 FY13: £4.9m) generated from the delivery of Orthodontic services under contracts with NHS England.

### Private revenue

Private revenue for the quarter ended 30 September 2013 was £13.0m, 24.0% higher than £10.5m for the equivalent period in FY13.

Practices owned at 1 April 2012 increased private sales by £0.8m or 7.6% to £11.0m for the quarter with acquired practices generating £1.8m additional private revenue. Private revenue increases have

been generated through the development of additional services for the dentist associates to provide as well as increasing the range of our hygiene offering.

### **Other revenue**

Other revenue of £1.6m has been generated from dbg, subscriptions for courses at the IDH Academy and other services.

### **Cost of sales**

Gross margin for the quarter ended 30 September 2013 was 48.9% a 1.6% increase from 47.3% in the quarter ended 30 September 2012.

Cost of sales increased by £5.4m and 12.2% from £44.5m to £49.9m for the quarter. The increase in the cost of sales is primarily the result of the increase in revenue in acquisition sites: FY13 and FY14 acquisitions increased cost of sales by £5.4m and dbg added £1.0m.

Cost pressures in dentist fees, labs and materials, especially in more isolated areas of the country, and the mix effect of increased private turnover and the associated higher dentist fee rates, lab and materials costs have diluted the effect of the margin increase arising from the 1.5% NHS contract uplift.

However, margins have been assisted by the reduced level of locum usage and savings on lab fees resulting from management initiatives to increase cost transparency to the dentist associates.

### **Administrative expenses**

Administrative expenses including goodwill amortisation and depreciation were £44.2m for Q2 FY14, an increase of £7.3m from £36.8m in the three months to 30 September 2012. Administrative expenses excluding goodwill amortisation, depreciation, grant income and exceptional items were £32.5m, an increase of £5.3m from £27.2m in Q2 FY13.

The movement in administrative expenses is primarily due to the practice overheads relating to 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 September 2013, staff costs were £21.4m, an increase of £3.9m from £17.5m in Q2 FY13. This increase is partly due to practice acquisitions (£1.9m) but also to new incentives and pay rates for nurses and practice staff to increase retention rates (approximately £1.0m).

Rent expense for the quarter was £2.4m, 2.4% of revenue and an increase of £0.3m from £2.1m in FY13. The increase was due to the growth in the number of practices.

Equipment and property maintenance costs for Q2 FY14 were £2.0m, £0.2m higher than Q2 FY13 due to the increased practice estate.

### **Other operating income**

Other operating income for the three months ended 30 September 2013 increased by 4.9% to £0.4m. 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 increased by £2.5m, 18.9% from Q2 FY13 (£13.2m) to Q2 FY14 (£15.6m).

## Year to date performance

In the six months to September 2013 turnover has increased by 18.1% from £166.2m to £196.3m. This increase has been driven by our acquisition programme over the last two years; however we have also experienced growth in our existing practices and in private revenue. Other services, including dbg, have added £3.4m of revenue with £26.7m of growth from practice services.

Practices acquired during FY13 and FY14 have added £20.9m of revenue to the group results year to date with £6.5m generated from practices owned as at 1 April 2012. This includes a 6.6% increase in private turnover and a 3.5% improvement in NHS revenue including the 1.5% contract uplift received from the NHS.

Dental practice turnover	YTD 2014 £'000	YTD 2013 £'000	Movement £'000
Practices owned as at 1 April 2012	169,825	163,297	6,528
Practices disposals for OFT clearance	-	676	(676)
Practices acquired or opened:			
During the 12 months ended 31 March 2013	15,347	2,251	13,096
During the 6 months ended 30 September 2013	7,786	-	7,786
<b>Total</b>	<b>192,958</b>	<b>166,224</b>	<b>26,734</b>

EBITDA before exceptional items for the year to date has increased from £25.9m in FY13 to £31.0m in FY14, an increase of 19.9%.

Performance in Q2 FY14 when compared to Q1 FY14 is flat with revenue lower by £1.1m and EBITDA 1.5% (£0.2m) higher including the impact of acquisitions over the last two years.

Practices owned at 1 April 2012 have experienced a fall in NHS revenue of £2.8m from Q1 to Q2. At the end of August, NHS revenue for these practices was in line with expectations. During the second half of September the group experienced IT issues relating to the practice back office management systems in approximately 45% of our practices and, for clinical safety reasons, reduced the number of patients we were able to assist. The issue was resolved by the quarter end, and our practice teams and clinicians are working hard to reschedule missed appointments through October. The EBITDA effect of this disruption has been estimated at between £0.9m and £1.1m, however we expect to recover a proportion of this through additional sessions over the remaining part of the NHS contract year to 31 March 2014.

## Pro-forma LTM EBITDA

	£'000
LTM EBITDA before exceptional items at 30 September 2013	61,492
Trading days adjustment	-
IT conversion adjustment	465
Estimated adjusted EBITDA of acquired dental practices at 30 September 2013	6,582
<u>Adjusted EBITDA for dbg including annualised synergies</u>	<u>3,059</u>
Estimated pro-forma adjusted LTM EBITDA	71,598

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

The adjustment of £0.7m included in the Offering Memorandum for two trading days has been removed from the calculation due to the number of trading days now included in the LTM base figure.

The IT conversion adjustment represents a one-off decline in UDA delivery performance resulting from the conversion of ADP systems to group IT systems and the subsequent time lost due to installation and training and in the familiarisation period following installation during Q3 and Q4 of FY13.

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. For dbg the EBITDA adjustments are the full year effect of the synergies described in the Offering Memorandum. Since the acquisition of dbg, management have started to introduce the plans to deliver these synergies and remain on track to deliver the full year effect of such initiatives during the year ended March 2015.

### Interest

The interest charge of £7.9m arises from the first full quarter of the new funding structure.

The current financing structure for the group was effective from 30 May 2013 and a full quarter of charges for the £200m 6% Senior Secured Fixed Rate Notes, £125m Senior Secured Floating Rate Notes and £75m Second Lien Notes, equivalent to £6.3m, is included in the quarterly results.

The remaining £1.6m relates to amortisation of arrangement fees, interest rate swap charges and interest charges following a drawdown from the Super Senior Revolving Credit Facility.

### Taxation

The tax charge for the quarter of £0.5m is due to the recalculation of the value of deferred tax assets following substantive enactment of the Finance Act and the reduction in future period taxation rates. The resulting charge of £1.0m is offset by the recognition of deferred tax assets arising from capital allowances on assets acquired in the quarter.



### **Debt and liquidity**

At 30 September 2013, the net debt was £369.9m, compared to £360.9 at 30 June 2013. This movement was primarily due to a drawdown from the Super Senior Revolving Credit Facility of £5.0m and the decrease in cash balances during the quarter. The movement from 30 September 2012 is primarily due to non-cash movements including the capitalisation of £411.0m of shareholder loans through the issue of share capital by Turnstone Midco 2 Limited.

Net cash flow for the quarter was an outflow of £3.5m including £9.1m for acquisitions, £5.0m for capital expenditure, including the refurbishment of acquisition sites and £7.3m for the servicing of finance.

### **Working capital movements**

Net cash inflow from operating activities fell from £15.6m in Q2 FY13 to £14.5m in Q2 FY14 and the ratio of EBITDA to operating cash flow fell from 118.7% to 93.0%.

The cash outflow arising from the utilisation of fair value accruals created as part of the acquisitions of ADP and IDH by Turnstone Midco 2 Limited included £2.0m for practice upgrades to maintain compliance with CQC and Health and Safety regulations.

Adding the utilisation of the fair value accruals and other small one-off items back to operating cash flow would increase the operating cash flow to £17.1m and the ratio of EBITDA to operating cash to 109.2%.

### **Capital expenditure**

Capital expenditure for Q2 FY14 was £5.0m including acquisition refurbishments of £0.6m. The remaining capital expenditure is referred to as “maintenance” capital expenditure and was £4.4m for the quarter.

The maintenance capital expenditure for the quarter includes a number of infrastructure projects and relocation costs. The £4.4m cash flow for the quarter includes £1.1m for IT projects for back-up storage and the development of a central booking platform, £0.6m for the relocation or refurbishment of the Bedford, Tooting, Morden, Yeovil and Northwich practices and £0.2m for the development of a new location in Bangor, North Wales.

### **Cash conversion**

Cash conversion is measured as the ratio of EBITDA to operating cash flow less maintenance capital expenditure and for the quarter was 67.6% compared to 96.4% in the corresponding quarter in FY13.

Cash conversion was reduced by the working capital outflows and the infrastructure and refurbishment capital expenditure projects discussed above. After taking these items into account, cash conversion would increase to 93.8% for the quarter.

### **Acquisitions**

Acquisitions capital expenditure in the quarter was £9.1m and was focussed on individual practice acquisitions.

## **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 and the statutory accounts for Turnstone Equityco 1 Limited for the year ended 31 March 2013.

## **Recent developments**

### **Appointment of Terry Scicluna as Chief Executive Officer**

On 31 October 2013, the group announced the appointment of Terry Scicluna as Chief Executive Officer. Mr Scicluna replaced Richard Smith, who has left to pursue interests outside the company.

Terry Scicluna brings nearly 35 years of UK healthcare and retail experience to IDH. Prior to IDH, he spent nine years with Alliance Boots where he held various senior positions. Most recently, he was International Managing Director and was responsible for all Boots stores and brands outside of the UK with a turnover of over £2 billion. Prior to that he was Managing Director of Unichem and Alliance Pharmacy, which at the time had a turnover of £1.2 billion and 1,000 outlets.

# **Turnstone Midco 2 Limited**

**Condensed consolidated financial statements – Unaudited**

**Q2, 2014 – 3 months ended 30 September 2013**

## Profit and loss account (unaudited)

For the quarter ended 30 September 2013

	<i>Note</i>	Q2 2014 £'000	Q2 2013 £'000
Turnover	3	97,614	84,408
Cost of sales		(49,902)	(44,472)
Gross profit		47,712	39,936
Administrative expenses		(44,167)	(36,834)
Other operating income		448	427
Operating profit		3,993	3,529

EBITDA before exceptional items		15,628	13,149
Depreciation		(3,317)	(2,977)
Amortisation of goodwill		(8,442)	(7,025)
Amortisation of grant income		135	161
Exceptional items		(11)	221
Operating profit		3,993	3,529

(Loss)/profit on disposal of assets		(308)	56
Profit on ordinary activities before interest and taxation		3,685	3,585
Interest payable and similar charges		(7,855)	(17,764)
Interest receivable and other income		50	10
Loss on ordinary activities before taxation	3	(4,120)	(14,169)
Tax on loss on ordinary activities	4	(502)	(156)
Loss on ordinary activities after taxation		(4,622)	(14,325)
Equity minority interests		2	44
Loss for the financial period		(4,620)	(14,281)

## Profit and loss account (unaudited)

For the six months ended 30 September 2013

	<i>Note</i>	YTD 2014 £'000	YTD 2013 £'000
Turnover	3	196,340	166,224
Cost of sales		(101,438)	(87,468)
Gross profit		94,902	78,756
Administrative expenses		(87,809)	(73,970)
Other operating income		889	847
Operating profit		7,982	5,633

EBITDA before exceptional items		31,017	25,860
Depreciation		(6,493)	(5,878)
Amortisation of goodwill		(16,755)	(14,498)
Amortisation of grant income		273	327
Exceptional items		(60)	(178)
Operating profit		7,982	5,633

Loss on disposal of assets		(305)	(699)
Profit on ordinary activities before interest and taxation		7,677	4,934
Interest payable and similar charges		(38,387)	(34,637)
Interest receivable and other income		52	20
Loss on ordinary activities before taxation	3	(30,658)	(29,683)
Tax on loss on ordinary activities	4	541	(471)
Loss on ordinary activities after taxation		(30,117)	(30,154)
Equity minority interests		(7)	42
Loss for the financial period	8	(30,124)	(30,112)

## Balance sheet (unaudited)

at 30 September 2013

	<i>Note</i>	Q2 2014 £'000	Q2 2013 £'000
Intangible assets	5	605,522	542,505
Tangible assets		72,448	62,722
<b>Fixed assets</b>		<b>677,970</b>	<b>605,227</b>
Stock		7,357	5,756
Debtors		37,901	28,583
Cash at bank and in hand		20,806	15,468
<b>Current assets</b>		<b>66,064</b>	<b>49,807</b>
Creditors: amounts falling due within one year	6	(65,538)	(62,822)
<b>Net current liabilities</b>		<b>526</b>	<b>(13,015)</b>
Creditors: amounts falling due after more than one year	7	(395,125)	(657,058)
Provisions for liabilities and charges		(11,770)	(17,071)
<b>Net assets/(liabilities)</b>		<b>271,601</b>	<b>(81,917)</b>
<b>Capital and reserves</b>			
Share capital	8	410,961	-
Profit and loss reserve	8	(139,283)	(81,871)
Minority interest	8	(77)	(46)
<b>Total shareholders' funds/(deficit)</b>	<b>8</b>	<b>271,601</b>	<b>(81,917)</b>

## Cash flow statement (unaudited)

*For the quarter ended 30 September 2013*

	Q2 2014 £'000	Q2 2013 £'000
Operating profit	3,993	3,529
Amortisation of goodwill	8,442	7,025
Depreciation	3,317	2,977
Amortisation of grant income	(135)	(161)
Increase in stock	(143)	(23)
(Increase)/decrease in debtors	(2,278)	33
Increase in creditors	3,805	2,752
Decrease in provisions	(2,472)	(519)
<b>Net cash inflow from operating activities</b>	<b>14,529</b>	<b>15,613</b>
Corporation tax recovered/(paid)	342	-
Returns on investments and servicing of finance	(7,279)	(4,821)
Capital expenditure	(5,040)	(4,501)
Acquisitions and disposals	(9,061)	(11,406)
<b>Net cash outflow before financing</b>	<b>(6,509)</b>	<b>(5,115)</b>
Debt issue costs	(1,978)	-
Financing	5,000	6,044
<b>(Decrease)/increase in cash for the period</b>	<b>(3,487)</b>	<b>929</b>
Opening cash	24,293	14,539
Closing cash	20,806	15,468

## Cash flow statement (unaudited)

*For the six months ended 30 September 2013*

	YTD 2014 £'000	YTD 2013 £'000
Operating profit	7,982	5,633
Amortisation of goodwill	16,755	14,498
Depreciation	6,493	5,878
Amortisation of grant income	(273)	(327)
Increase in stock	(278)	(23)
Increase in debtors	(8,321)	(2,371)
Increase in creditors	3,870	5,555
Decrease in provisions	(3,549)	(982)
<b>Net cash inflow from operating activities</b>	<b>22,679</b>	<b>27,861</b>
Corporation tax recovered/(paid)	246	-
Returns on investments and servicing of finance	(12,351)	(9,767)
Capital expenditure	(10,138)	(6,773)
Acquisitions and disposals	(59,768)	(15,629)
<b>Net cash outflow before financing</b>	<b>(59,332)</b>	<b>(4,308)</b>
Debt issue costs	(13,300)	-
Financing	51,035	819
<b>Decrease in cash for the period</b>	<b>(21,597)</b>	<b>(3,489)</b>
Opening cash	42,403	18,957
Closing cash	20,806	15,468



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

*For the quarter ended 30 September 2013*

	Q2 2014	Q2 2013
	£'000	£'000
(Decrease)/increase in cash for the period	(3,487)	929
Drawdown of bank loans	(5,000)	(13,098)
Repayment of bank loans	-	7,054
Redemption of loan notes	-	-
Issue of high yield bonds	-	-
Debt issue costs	1,978	-
<b>Total cash movement in net debt</b>	<b>(6,509)</b>	<b>(5,115)</b>
Accrued interest	-	(11,866)
Non-cash movements in net debt from re-financing	(1,858)	-
Amortisation of loan arrangement fees	(607)	(864)
<b>Total non-cash movement in net debt</b>	<b>(2,465)</b>	<b>(12,730)</b>
<b>Total movement in net debt</b>	<b>(8,974)</b>	<b>(17,845)</b>
Net debt brought forward	(360,907)	(633,033)
<b>Net debt carried forward</b>	<b>(369,881)</b>	<b>(650,878)</b>

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

*For the six months ended 30 September 2013*

	YTD 2014	YTD 2013
	£'000	£'000
Decrease in cash for the period	(21,597)	(3,489)
Drawdown of bank loans	(30,307)	(13,098)
Repayment of bank loans	329,272	12,279
Redemption of loan notes	50,000	-
Issue of high yield bonds	(400,000)	-
Debt issue costs	13,300	-
<b>Total cash movement in net debt</b>	<b>(59,332)</b>	<b>(4,308)</b>
Accrued interest	(8,339)	(22,930)
Non-cash movements in net debt from re-financing	397,495	-
Amortisation of loan arrangement fees	(1,383)	(1,710)
<b>Total non-cash movement in net debt</b>	<b>387,773</b>	<b>(24,640)</b>
<b>Total movement in net debt</b>	<b>328,441</b>	<b>(28,948)</b>
Net debt brought forward	(698,322)	(621,930)
<b>Net debt carried forward</b>	<b>(369,881)</b>	<b>(650,878)</b>

## Notes

*Forming part of the financial statements*

### **1 General information and statement of compliance**

Turnstone Midco 2 Limited (the “company”) 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 financial statements of the company are for the quarter ended 30 September 2013. The results for the year-to-date represent the group’s trading from 1 April 2013 to 30 September 2013 and include the refinancing of the group’s bank debt through the issue of high yield bonds by IDH Finance plc. Comparative results are provided for the quarter ended 30 September 2012.

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

The condensed consolidated financial statements have been prepared in accordance with the recognition and measurement requirements of UK Generally Accepted Accounting Practice (UK GAAP). They do not include all of the information required for full annual statements and should be read in conjunction with the consolidated financial statements for the group, Turnstone Equityco 1 Limited for the year ended 31 March 2013 which are available from our website, [www.idhgroup.co.uk](http://www.idhgroup.co.uk).

### **2 Accounting policies**

The condensed consolidated financial statements have been prepared on the basis of the group accounting policies set out in the 2013 directors’ report and consolidated financial statements for Turnstone Equityco 1 Limited.

#### ***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) arising on consolidation in respect of acquisitions is capitalised. Positive goodwill is amortised to nil by equal annual instalments over its estimated useful life, which is 20 years, being the period over which the group expects to benefit from the assets acquired. 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.

## Notes

*Forming part of the financial statements*

### **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 that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

### **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

	Q2		Year to date	
	Turnover £'000	Profit £'000	Turnover £'000	Profit £'000
Operation of dental practices	95,995	15,383	192,958	30,442
Other services	1,619	245	3,382	575
Group turnover/EBITDA	97,614	15,628	196,340	31,017
Exceptional items		(11)		(60)
Profit/(loss) on disposal of assets		(308)		(305)
Depreciation and amortisation		(11,624)		(22,975)
Net interest payable		(7,805)		(38,335)
Loss before taxation		(4,120)		(30,658)

All activities arose in the United Kingdom.

### 4 Taxation

	Q2 2014 £'000	Q2 2013 £'000
<b>Analysis of tax credit/(charge) in the period</b>		
<i>Current tax</i>		
Corporation tax	-	(732)
Total current tax credit/(charge)	-	(732)
<i>Deferred tax</i>		
Deferred tax credit	509	576
Adjustment in respect of prior periods	-	-
Effect of changes in tax rates	(1,011)	-
Total deferred tax credit/(charge)	(502)	576
Tax credit/(charge) on ordinary activities	(502)	(156)

Due to the level of allowable interest deductions, no current tax liability has been recognised for the quarter ended 30 September 2013.

The deferred tax asset has been recognised based on the capital allowances available on fixed assets acquired during the quarter.

The main rate of Corporation Tax has been reduced to 23% from 1 April 2013. The budget announced on 20 March 2013, and substantively enacted on 1 July 2013, included provisions to reduce the main rate of Corporation Tax to 21% by 1 April 2014 and 20% by 1 April 2015. The rate reduction has been applied to the timing of the reversal of deferred tax assets and has reduced the deferred tax balance by £1.0m.

## Notes

Forming part of the financial statements

### 4 Taxation (continued)

	YTD 2014	YTD 2013
	£'000	£'000
<b>Analysis of tax credit/(charge) in the period</b>		
<i>Current tax</i>		
Corporation tax	17	(1,464)
<b>Total current tax credit/(charge)</b>	<b>17</b>	<b>(1,464)</b>
<i>Deferred tax</i>		
Deferred tax credit	1,535	1,152
Adjustment in respect of prior periods	-	(159)
Effect of changes in tax rates	(1,011)	-
<b>Total deferred tax credit/(charge)</b>	<b>524</b>	<b>993</b>
<b>Tax credit/(charge) on ordinary activities</b>	<b>541</b>	<b>(471)</b>

### 5 Intangible fixed assets

During the three months ended 30 September 2013, the group acquired 10 dental practices. Practice acquisitions totalling £4.5m and subsidiary acquisitions totalling £5.0m were made in the period.

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

	Q2 2014	Q2 2013
	£'000	£'000
Bank loans	-	10,795
Trade creditors	7,985	7,011
Other taxation and social security	1,775	1,138
Corporation tax	232	1,493
Deferred consideration for acquisitions	5,208	907
Accruals and deferred income	47,971	40,661
Accrued interest	2,367	817
	<b>65,538</b>	<b>62,822</b>

Deferred consideration is due to the vendors of individual practices.

## Notes

*Forming part of the financial statements*

### 7 Creditors: amounts falling after more than one year

	Q2 2014	Q2 2013
	£'000	£'000
High yield bonds	400,000	-
Debt issue costs	(14,313)	-
High yield bonds net of debt issue costs	385,687	-
Bank loans	-	241,332
Shareholder loans	-	414,218
Super senior revolving credit facility	5,000	-
Deferred consideration	4,105	652
Accruals and deferred income	333	856
	395,125	657,058

The high yield bonds were issued at 100% on 30 May 2013 and consist of:

- £200m 6% Senior Secured Fixed Rate Notes due to mature on 1 December 2018;
- £125m 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%.

The shareholder loan notes outstanding in Q2 2013 were issued by the parent company, Turnstone Midco 1 Limited as part of the acquisition of the IDH and ADP groups in 2013 and as additional funding for acquisitions in the intervening period. The liability at 29 May 2013 was settled through the issue of share capital in Turnstone Midco 2 Limited, excluding £50m which remained outstanding.

The proceeds of the bond issue were used to repay all outstanding bank facilities on 30 May 2013 and the £50m of outstanding shareholder loans.

As part of an interest rate management strategy, the group has entered into two interest rate contracts to swap LIBOR for a fixed rate.

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

## Notes

*Forming part of the financial statements*

### 8 Shareholders' funds

	Q2 2014	Q2 2013
	£'000	£'000
Share capital	410,961	-
Profit and loss reserve	(139,283)	(81,871)
Minority interest	(77)	(46)
Total shareholders' funds/(deficit)	271,601	(81,917)

As part of the refinancing process, £411m of loan notes due to the company's parent, Turnstone Midco 1 Limited, were settled through the issue of additional share capital.

Share capital	Q2 2014	Q2 2013
	£'000	£'000
At beginning and end of period	410,961	-

  

Profit and loss reserve	YTD 2014	YTD 2013
	£'000	£'000
At beginning of the period	(109,159)	(51,759)
Loss for the financial period	(30,124)	(30,112)
At end of period	(139,283)	(81,871)