



**IDH Finance plc**  
Quarterly Financial Report  
3 months ended 30 September 2015

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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 2015 which are maintained in accordance with UK GAAP. The interim results are not necessarily indicative of the results to be expected for the full year.

In accordance with the implementation timetable for the new UK accounting regime, the group is required to adopt Financial Reporting Standard 102 (‘FRS 102’) for financial statements prepared in the year ending 31 March 2016. Therefore, FRS 102 has been applied in preparing these condensed consolidated financial statements. The group’s transition date is 1 April 2014 and the results for the comparative periods, being the three month period ended 30 September 2014 and the six months ended 30 September 2014, are also restated in accordance with FRS 102.

We have presented certain non-GAAP information in this 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 and six months ended 30 September 2014. Information presented in this report and described as like-for-like excludes any practices or other operating units trading in the group in the current financial year or the year ended 31 March 2015 but not in both.

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

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## **DISCLAIMER**

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## Summary highlights

- Turnover for the three months ended 30 September 2015 (“Q2 FY16”) was £139.2m. Year on year turnover growth, predominantly driven by acquisitions, was 4.6%.
- Q2 FY16 like-for-like private revenue growth of 14.2%.
- Q2 FY16 gross margin percentage of 45.8% compared to 44.9% in the three months to 30 September 2014 (“Q2 FY15”).
- Administrative expenses, excluding depreciation, goodwill amortisation and exceptional items, as a percentage of turnover was 32.4%, compared to 30.9% in Q2 FY15.
- EBITDA before exceptional items for the three months ended 30 September 2015 of £19.1m, in line with the three months to 30 September 2014.
- YTD EBITDA OF £36.9m.
- LTM EBITDA of £76.8m; and pro-forma LTM EBITDA of £83.9m.
- 15 practices were acquired during the quarter – total practices at quarter end of 666.
- Practice acquisitions include a group of six practices acquired in the East Midlands and two further practices in Northern Ireland.
- Med-FX, a distributor of facial aesthetics products, was acquired by our Practice Services division on 31 August 2015.
- Total consideration for practice acquisitions and Med-FX was £18.9m.
- Operating cash generated of £19.1m (Q2 FY15: £22.8m).
- Maintenance capital expenditure for the quarter ended 30 September 2015 was £4.6m.
- Normalised cash conversion adjusting for one-off items in working capital and maintenance capital expenditure was 102.4%.
- Cash and cash equivalents at 30 September 2015 of £18.0m and net debt was £512.6m.
- Gearing levels are 6.67 times and 6.11 times LTM EBITDA and pro-forma LTM EBITDA respectively.
- ‘mydentist’ brand rolled out to 247 practices as of 30 September 2015.

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

### Overview

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

IDH is the leading provider of dental services in the United Kingdom with a network of 666 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 Dental Directory ("DD") and Dental Buying Group ("dbg"). In conjunction with the Academy (provision of internal and external learning facilities) and the newly acquired Med-FX Limited, DD and dbg make up our Practice Services division.

### Commentary on results

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

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

Key performance indicators	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016
Turnover (£m)	133.2	135.5	141.7	135.5	139.2
EBITDA (£m)	19.1	18.0	21.9	17.7	19.1
LTM EBITDA (£m)	73.6	73.9	76.8	76.8	76.8
Operating profit/(loss) (£m)	(1)	3.4	0.8	(2.5)	(4.4)
NHS dentistry services as a percentage of turnover	69.2%	69.5%	69.4%	68.4%	68.0%
Private dentistry services as a percentage of turnover	12.7%	13.1%	13.3%	14.9%	15.5%
Practice services as a percentage of turnover	18.1%	17.4%	17.3%	16.7%	16.5%
Like-for-like private turnover growth	13.8%	9.4%	11.5%	10.4%	14.2%
Gross profit margin %	44.9%	44.4%	45.1%	45.7%	45.8%
Administrative expenses as a percentage of turnover	30.9%	31.4%	30.0%	32.9%	32.4%
EBITDA margin %	14.4%	13.3%	15.4%	13.1%	13.7%
Number of dental practices	621	628	644	651	666
Maintenance capital expenditure (£m)	4.6	5.4	5.9	5.9	4.6
Cash conversion after maintenance capital expenditure %	(2)	100.7%	56.7%	103.0%	102.3%
Pro-forma EBITDA (£m)	86.0	83.2	85.1	83.3	83.9

(1) Operating profit/(loss) figures are as restated in accordance with FRS 102.

(2) Normalised cash conversion, after adjusting for one-off items in working capital and maintenance capital expenditure in Q2 FY16 was 102.4% (Q2 FY15: 101.6%).

In the quarter ended 30 September 2015, we acquired 15 dental practices for a total of 666 dental practices in our estate as at the quarter end.

### Turnover

Group turnover increased by £6.1m, or 4.6%, from £133.2m for the three month period ended 30 September 2014 (“Q2 FY15”) to £139.2m for the three month period to 30 September 2015 (“Q2 FY16”).

Turnover derived from dental practices increased by £7.2m from £109.1m to £116.3m. Turnover from our Practice Services division, after the elimination of intragroup trading, decreased by £1.1m from £24.1m in Q2 FY15 to £23.0m in Q2 FY16.

Group turnover	Q2 2016 £'000	Q2 2015 £'000	Movement £'000
Practices owned as at 1 April 2014	104,637	105,502	(865)
Practices acquired or opened:			
During the 12 months ended 31 March 2015	9,900	3,557	6,343
During the 6 months ended 30 September 2015	1,742	-	1,742
Dental practice turnover	116,279	109,059	7,220
Practice services and other turnover	22,955	24,094	(1,139)
Group turnover	139,234	133,153	6,081

Turnover of £9.9m was contributed by the 67 practices acquired or opened during the period 1 April 2014 to 31 March 2015 (“FY15 acquisitions”) in the quarter ended 30 September 2015, a £6.3m increase over the £3.6m contributed by the 39 practices acquired or opened in the first half of the last financial year. The 24 practices acquired during the first half of FY16 (“FY16 acquisitions”) contributed an additional £1.7m.

### NHS revenue

NHS revenue for the quarter ended 30 September 2015 was £94.6m, an increase of £2.5m or 2.7% from £92.1m in Q2 FY15.

This increase was principally due to the impact of acquisitions with £5.6m generated by FY15 and FY16 acquisitions.

NHS revenue generated from practices owned at 1 April 2014 reduced from £89.6m to £86.5m due to:

- lower levels of UDA performance in the quarter when compared to FY15;
- partially offset by the 1.34% NHS dentistry contract uplift applied to the contracted Units of Dental Activity (“UDA”) from 1 April 2015; and
- patients choosing private treatment solutions instead of NHS treatment plans;

Included within the NHS revenue number is £7.9m (Q2 FY15: £6.9m) generated from the delivery of Orthodontic services under contracts with NHS England.

**Private revenue**

Private revenue for the quarter ended 30 September 2015 was £21.6m, 27.8% higher than £16.9m for the equivalent period in FY15.

Practices owned at 1 April 2014 increased private sales by £2.2m or 14.2% to £18.1m for the quarter with acquired practices generating £2.5m additional private revenue. Private revenue increases have been generated through the application of minimum recommended prices, the development of additional services for the dentist associates to provide to our patients and increased training for our associates in providing patient choice.

**Practice services and other revenue**

Revenue of £23.0m (Q2 FY15: £24.1m) has been generated from The Dental Directory, dbg and other services. The decline of £1.1m was mainly due to the loss of one corporate account towards the end of Q2 FY15.

**Cost of sales**

Gross margin for the quarter ended 30 September 2015 was 45.8% a 0.9% increase from 44.9% in the quarter ended 30 September 2014. Patient services gross margin for Q2 FY16 was 48.8% (Q2 FY15: 48.5%) and gross margin in our practice services division was 34.3% (Q2 FY15: 28.6%) due to changes in sales mix and favourable exchange rates particularly with the Euro.

Cost of sales increased by £2.1m, or 2.9%, from £73.4m to £75.5m for the quarter. The increase in the cost of sales is primarily the result of the FY15 and FY16 practice acquisitions within Patient services, which increased cost of sales by £4.2m. However, this is partially offset by a reduction in cost of sales of £2.1m within Practice Services, principally due to more favourable exchange rates.

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

Locum costs during Q2 FY16 have increased when compared to Q2 FY15, however this has been partially offset by further savings in materials costs as highlighted in the previous quarter.

**Administrative expenses**

Administrative expenses including amortisation of intangibles and depreciation were £68.6m for Q2 FY16, an increase of £11.8m from £56.8m in the three months to 30 September 2014.

Administrative expenses excluding amortisation of intangibles, depreciation, grant income and exceptional items were £45.1m, an increase of £4.0m from £41.1m in Q2 FY15.

The movement in administrative expenses is primarily due to dental practice acquisitions including staff costs, rent, utilities and equipment maintenance for the additional practices. However, we have also had to make some investments in operational staffing which will be partially offset by some recent reductions in central staffing levels.

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 2015, staff costs were £29.7m, an increase of £3.1m from £26.6m in Q2 FY15. This increase is due to the full period effect of FY15 and FY16 practice acquisitions (£1.5m). Management also made investments in practice operations during the second half of FY15 which increased the number of practice and area managers, introduced a management team focused on the development of private revenues, improved dentist clinical support and invested in pay structures to retain and incentivise nurses.

Rent expense for the quarter was £3.4m, 2.4% of revenue and an increase of £0.4m from £3.0m in Q2 FY15. The increase was principally due to the growth in the number of practices.

Dental equipment and practice property maintenance costs for Q2 FY16 were £3.0m, £0.7m higher than Q2 FY15 due to the increased practice estate and volumes of activity.

### Other operating income

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

### EBITDA before exceptional items

Earnings before interest tax, depreciation, amortisation and exceptional items for the three months ended 30 September 2015 was £19.1m.

### Exceptional items

Exceptional items of £5.8m include the costs associated with the 'mydentist' re-branding. As at 30 September 2015, the 'mydentist' brand had been rolled out to 247 sites.

Also included within exceptional items is a £1.5m restructuring provision, reflecting the one-off cost of action taken by management during September 2015 to adapt central staff structures to reflect recent trends in the group's trading performance.

### Year to date performance

In the six months to 30 September 2015 turnover increased by 6.9% from £257.0m to £274.8m. This increase was principally driven by the dental practice acquisition programme, with practices acquired during FY15 and FY16 adding £17.8m of revenue to the group results for the year to date.

Revenue generated from practices owned at 1 April 2014 has decreased by £1.7m due to a £5.5m reduction in NHS revenue offset by a 12.3% increase in private turnover. The reduction in NHS revenue is a continuing trend for lower UDA performance when compared to FY15. This mirrors a trend being experienced across the industry according to the latest available NHS industry data. However, the reduction has been partially offset by the 1.34% dentistry contract uplift received from the NHS.

Group turnover	YTD 2016 £'000	YTD 2015 £'000	Movement £'000
Practices owned as at 1 April 2014	207,465	209,136	(1,671)
Practices acquired or opened:			
During the 12 months ended 31 March 2015	19,564	3,857	15,707
During the 6 months ended 30 September 2015	2,104	-	2,104
Dental practice turnover	229,133	212,993	16,140
Practice services and other turnover	45,633	44,013	1,620
Group turnover	274,766	257,006	17,760

EBITDA before exceptional items for the year to date was £36.9m.

## Pro-forma LTM EBITDA

	£'000
LTM EBITDA before exceptional items at 30 September 2015	76,799
Estimated adjusted EBITDA of acquired dental practices at 30 September 2015	5,865
Reversal of one off FY15 stock adjustment and Practice Services synergies	1,256
Estimated pro-forma adjusted LTM EBITDA	83,920

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

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

### Interest

Interest payable and similar charges of £9.8m includes £7.7m 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 £1.8m relates to the amortisation of arrangement fees, interest rate swap charges and interest charges in respect of the Super Senior Revolving Credit Facility. £0.2m arises from the unrealised mark-to-market movement in the value of the group's interest rate swap contracts and £0.1m arises from realised losses from foreign exchange forward contracts, or the retranslation of foreign currency denominated assets and liabilities within the Practice Services division.

Interest receivable and similar income of £0.7m principally arises from the mark-to-market movement in the value of foreign exchange forward contracts taken out to hedge currency requirements in the Practice Services division.

### Debt and liquidity

At 30 September 2015, net debt was £512.6m, compared to £495.0m at 30 June 2015. This movement reflects drawdowns of £8.5m from the Super Senior Revolving Credit Facility in addition to a decrease in cash balances during the quarter.

Net cash flow for the quarter was an outflow of £8.5m. This reflects cash generated from operating activities of £19.1m, drawdowns from the Super Senior Revolving Credit Facility of £8.5m, proceeds from the sale of freehold property of £1.7m and £0.5m of corporation tax recovered, offset by expenditure of £18.9m on acquisitions, capital expenditure of £5.9m, including the refurbishment of acquisition sites and £13.5m for the servicing of finance.

### Working capital movements

Net cash inflow from operating activities decreased from £22.8m in Q2 FY15 to £19.1m in Q2 FY16 and the ratio of EBITDA to operating cash flow reduced from 119.5% to 100.0%. The reduction in the ratio of EBITDA to operating cashflow principally reflects the investment in rolling out the mydentist brand to the practice estate during FY16, which is reported as an exceptional item.

### Capital expenditure

Net capital expenditure for Q2 FY16 was £4.2m. This included proceeds from the sale of freehold property of £1.7m. Gross capital expenditure of £5.9m included acquisition refurbishments of £1.3m and "maintenance" capital expenditure of £4.6m.

Maintenance capital expenditure includes £0.3m for the merger of three practices in Torquay into two new premises.

### **Cash conversion**

Cash conversion is measured as the ratio of EBITDA to operating cash flow less maintenance capital expenditure and for the quarter was 101.1% compared to 100.7% in the corresponding quarter in FY15.

Cash conversion was reduced by the Torquay relocation capital expenditure project. After taking this into account, normalised cash conversion was 102.4% for the quarter (Q2 FY15: 101.6%). The cash conversion ratio is higher than normal due to the lower level of NHS contract performance compared to contract payments.

### **Acquisitions**

Acquisitions capital expenditure in the quarter was £18.9m and included the acquisition of Med-FX, a distributor of facial aesthetics products, by our Practice Services division.

We also acquired 15 dental practices, including a group of six practices in the East Midlands and a further two practices in Northern Ireland. This builds upon our acquisition of a group of four practices in Northern Ireland in Q1 FY16.

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## **Risk factors**

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

# **Turnstone Midco 2 Limited**

**Condensed consolidated interim financial statements – Unaudited**

**Q2 2016 – 3 month period ended 30 September 2015**

## Profit and loss account (unaudited)

For the quarter ended 30 September 2015

	<i>Note</i>	Q2 2016 £'000	Q2 2015 £'000
Turnover	3	139,234	133,153
Cost of sales		(75,513)	(73,378)
Gross profit		63,721	59,775
Administrative expenses		(68,596)	(56,845)
Other operating income		484	431
Operating (loss)/profit		(4,391)	3,361
EBITDA before exceptional items	3	19,128	19,118
Depreciation		(4,626)	(4,220)
Amortisation of intangible assets		(13,114)	(10,658)
Amortisation of grant income		38	102
Exceptional items		(5,817)	(981)
Operating (loss)/profit		(4,391)	3,361
Profit on disposal of assets		240	1,236
(Loss)/profit on ordinary activities before interest and taxation		(4,151)	4,597
Interest payable and similar charges		(9,777)	(10,276)
Interest receivable and similar income		670	32
Loss on ordinary activities before taxation	3	(13,258)	(5,647)
Tax on loss on ordinary activities	4	220	(128)
Loss on ordinary activities after taxation		(13,038)	(5,775)
Non-controlling interests		3	(14)
Loss for the financial period	8	(13,035)	(5,789)

## Profit and loss account (unaudited)

For the six months ended 30 September 2015

	<i>Note</i>	YTD 2016 £'000	YTD 2015 £'000
Turnover	3	274,766	257,006
Cost of sales		(149,164)	(141,662)
Gross profit		125,602	115,344
Administrative expenses		(133,460)	(108,690)
Other operating income		938	893
Operating (loss)/profit		(6,920)	7,547
EBITDA before exceptional items	3	36,875	36,841
Depreciation		(9,174)	(8,202)
Amortisation of intangible assets		(24,994)	(20,226)
Amortisation of grant income		92	213
Exceptional items		(9,719)	(1,079)
Operating (loss)/profit		(6,920)	7,547
(Loss)/profit on disposal of assets		(192)	1,524
(Loss)/profit on ordinary activities before interest and taxation		(7,112)	9,071
Interest payable and similar charges		(19,138)	(19,446)
Interest receivable and similar income		963	45
Loss on ordinary activities before taxation	3	(25,287)	(10,330)
Tax on loss on ordinary activities	4	822	(636)
Loss on ordinary activities after taxation		(24,465)	(10,966)
Non-controlling interests		46	(32)
Loss for the financial period	8	(24,419)	(10,998)

## Balance sheet (unaudited)

At 30 September 2015

	<i>Note</i>	Q2 2016 £'000	Q2 2015 £'000
Intangible assets	5	690,713	674,962
Tangible assets		95,158	88,009
Fixed assets		785,871	762,971
Stock		21,326	21,630
Debtors		60,480	64,074
Cash at bank and in hand		17,977	23,044
Current assets		99,783	108,748
Creditors: amounts falling due within one year	6	(109,119)	(86,720)
Net current (liabilities)/assets		(9,336)	22,028
Creditors: amounts falling due after more than one year	7	(536,336)	(510,483)
Provisions for liabilities and charges		(24,599)	(19,550)
Defined benefit pension scheme deficit		(331)	-
Net assets		215,269	254,966
Capital and reserves			
Share capital	8	410,961	410,961
Profit and loss reserve	8	(195,527)	(155,993)
Non-controlling interests	8	(165)	(2)
Total shareholders' funds	8	215,269	254,966

## Cash flow statement (unaudited)

*For the quarter ended 30 September 2015*

	Q2 2016	Q2 2015
	£'000	£'000
Operating (loss)/profit	(4,391)	3,361
Amortisation of intangible assets	13,114	10,658
Depreciation	4,626	4,220
Amortisation of grant income	(38)	(102)
Decrease in stock	190	977
Decrease/(increase) in debtors	967	(1,038)
Increase in creditors	4,992	5,107
Decrease in provisions	(325)	(338)
<b>Net cash inflow from operating activities</b>	<b>19,135</b>	<b>22,845</b>
Corporation tax recovered	550	-
Returns on investments and servicing of finance	(13,534)	(13,128)
Capital expenditure	(4,194)	745
Acquisitions and disposals	(18,948)	(23,373)
<b>Net cash outflow before financing</b>	<b>(16,991)</b>	<b>(12,911)</b>
Debt issue costs	-	(440)
<b>Financing</b>	<b>8,500</b>	<b>13,000</b>
<b>Decrease in cash for the period</b>	<b>(8,491)</b>	<b>(351)</b>
<b>Opening cash</b>	<b>26,468</b>	<b>23,395</b>
<b>Closing cash</b>	<b>17,977</b>	<b>23,044</b>

## Cash flow statement (unaudited)

For the six months ended 30 September 2015

	YTD 2016 £'000	YTD 2015 £'000
Operating (loss)/profit	(6,920)	7,547
Amortisation of intangible assets	24,994	20,226
Depreciation	9,174	8,202
Amortisation of grant income	(92)	(213)
Defined benefit pension scheme service cost	-	-
Decrease in stock	1,007	588
Increase in debtors	(5,567)	(3,344)
Increase in creditors	18,227	8,167
Decrease in provisions	(688)	(871)
<b>Net cash inflow from operating activities</b>	<b>40,135</b>	<b>40,302</b>
Corporation tax recovered	550	69
Returns on investments and servicing of finance	(17,763)	(16,360)
Capital expenditure	(11,328)	(4,328)
Acquisitions and disposals	(31,233)	(94,503)
<b>Net cash outflow before financing</b>	<b>(19,639)</b>	<b>(74,820)</b>
Debt issue costs	-	(1,322)
<b>Financing</b>	<b>8,500</b>	<b>92,250</b>
<b>(Decrease)/increase in cash for the period</b>	<b>(11,139)</b>	<b>16,108</b>
Opening cash	29,116	6,936
Closing cash	17,977	23,044

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

*For the quarter ended 30 September 2015*

	Q2 2016 £'000	Q2 2015 £'000
Decrease in cash for the period	(8,491)	(351)
Drawdown of bank loans	(8,500)	(13,000)
<b>Total cash movement in net debt</b>	<b>(16,991)</b>	<b>(13,351)</b>
Other non-cash movements in net debt	-	(103)
Amortisation of loan arrangement fees	(633)	(627)
<b>Total non-cash movement in net debt</b>	<b>(633)</b>	<b>(730)</b>
<b>Total movement in net debt</b>	<b>(17,624)</b>	<b>(14,081)</b>
<b>Net debt brought forward</b>	<b>(495,002)</b>	<b>(465,063)</b>
<b>Net debt carried forward</b>	<b>(512,626)</b>	<b>(479,144)</b>

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

*For the six months ended 30 September 2015*

	YTD 2015 £'000	YTD 2014 £'000
(Decrease)/increase in cash for the period	(11,139)	16,108
Drawdown of bank loans	(8,500)	(81,500)
Repayment of bank loans	-	90,500
Issue of high yield bonds	-	(101,250)
<b>Total cash movement in net debt</b>	<b>(19,639)</b>	<b>(76,142)</b>
Other non-cash movements in net debt	-	(103)
Amortisation of loan arrangement fees	(1,262)	(1,300)
<b>Total non-cash movement in net debt</b>	<b>(1,262)</b>	<b>(1,403)</b>
<b>Total movement in net debt</b>	<b>(20,901)</b>	<b>(77,545)</b>
<b>Net debt brought forward</b>	<b>(491,725)</b>	<b>(401,599)</b>
<b>Net debt carried forward</b>	<b>(512,626)</b>	<b>(479,144)</b>

## Notes

*Forming part of the financial statements*

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

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

The condensed consolidated interim financial statements of the company are for the quarter ended 30 September 2015. The results for the year to date represent the group’s trading from 1 April 2015 to 30 September 2015. Comparative results are provided for the quarter ended 30 September 2014 and for the six months ended 30 September 2014.

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

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

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

### **2 Accounting policies**

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

#### ***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.

## Notes

*Forming part of the financial statements*

### **Goodwill**

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

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

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

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

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

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

### **Externally acquired intangible assets**

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

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

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

<b><i>Intangible asset</i></b>	<b><i>Estimated useful economic life</i></b>	<b><i>Valuation method</i></b>
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.

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

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

- the group is able to control the reversal of the timing difference; and
- it is probable that the timing difference will not reverse in the foreseeable future.

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

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

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

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

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

### **Derivative financial instruments**

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

### **Leases**

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

## Notes

*Forming part of the financial statements*

### **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.

### **3 Segmental information**

	Q2 2016		YTD 2016	
	Turnover £'000	Profit £'000	Turnover £'000	Profit £'000
Dental practices	116,279	16,638	229,133	32,481
Practice services	22,955	2,490	45,633	4,394
Group turnover/EBITDA	139,234	19,128	274,766	36,875
Exceptional items		(5,817)		(9,719)
Profit/(loss) on disposal of assets		240		(192)
Depreciation and amortisation		(17,702)		(34,076)
Net interest payable		(9,107)		(18,175)
Loss before taxation		(13,258)		(25,287)

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

All activities arose in the United Kingdom.

## Notes

*Forming part of the financial statements*

### 4 Taxation

	Q2 2016	Q2 2015
	£'000	£'000
<b>Analysis of tax credit/(charge) in the period</b>		
<i>Current tax</i>		
Corporation tax	-	-
<b>Total current tax charge</b>	<b>-</b>	<b>-</b>
<i>Deferred tax</i>		
Deferred tax credit/(charge)	220	(128)
Adjustment in respect of prior periods	-	-
Effect of changes in tax rates	-	-
<b>Total deferred tax credit/(charge)</b>	<b>220</b>	<b>(128)</b>
<b>Tax credit/(charge) on ordinary activities</b>	<b>220</b>	<b>(128)</b>

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

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

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

	YTD 2016	YTD 2015
	£'000	£'000
<b>Analysis of tax credit/(charge) in the period</b>		
<i>Current tax</i>		
Corporation tax	-	-
<b>Total current tax charge</b>	<b>-</b>	<b>-</b>
<i>Deferred tax</i>		
Deferred tax credit/(charge)	822	(636)
Adjustment in respect of prior periods	-	-
Effect of changes in tax rates	-	-
<b>Total deferred tax credit/(charge)</b>	<b>822</b>	<b>(636)</b>
<b>Tax credit/(charge) on ordinary activities</b>	<b>822</b>	<b>(636)</b>

## Notes

*Forming part of the financial statements*

### 5 Intangible fixed assets

During the three months ended 30 September 2015, the group acquired 15 dental practices in addition to Med-FX. Practice acquisitions totalling £9.2m and subsidiary acquisitions totalling £13.3m (including Med-FX) were made in the period. Separately identifiable intangible assets of £13.7m and goodwill of £8.8m arose on these acquisitions.

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

### 6 Creditors: amounts falling due within one year

	Q2 2016	Q2 2015
	£'000	£'000
Trade creditors	16,966	18,984
Other taxation and social security	3,977	3,375
Corporation tax	624	173
Deferred consideration for acquisitions	7,247	6,270
Accruals and deferred income	77,392	54,933
Accrued interest	2,913	2,928
Derivative financial liabilities	-	57
	109,119	86,720

Deferred consideration is due to the vendors of individual practices.

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

## Notes

*Forming part of the financial statements*

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

	Q2 2016	Q2 2015
	£'000	£'000
High yield bonds	500,880	501,157
Debt issue costs	(9,277)	(12,072)
High yield bonds net of debt issue costs	491,603	489,085
Super senior revolving credit facility	39,000	13,000
Deferred consideration	2,832	6,071
Accruals and deferred income	381	454
Derivative financial liabilities	2,520	1,873
	536,336	510,483

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

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

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

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

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

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

## Notes

*Forming part of the financial statements*

### 8 Movements in shareholders' funds

	Q2 2016				Q2 2015			
	Share capital £'000	Profit and loss reserve £'000	Minority interest £'000	Total £'000	Share capital £'000	Profit and loss reserve £'000	Minority interest £'000	Total £'000
At beginning of the period	410,961	(182,492)	(162)	228,307	410,961	(150,204)	(16)	260,741
Loss for the financial period	-	(13,035)	(3)	(13,038)	-	(5,789)	14	(5,775)
At end of period	410,961	(195,527)	(165)	215,269	410,961	(155,993)	(2)	254,966

	YTD 2016				YTD 2015			
	Share capital £'000	Profit and loss reserve £'000	Minority interest £'000	Total £'000	Share capital £'000	Profit and loss reserve £'000	Minority interest £'000	Total £'000
At beginning of the period	410,961	(171,108)	(119)	239,734	410,961	(144,995)	(34)	265,932
Loss for the financial period	-	(24,419)	(46)	(24,465)	-	(10,998)	32	(10,966)
At end of period	410,961	(195,527)	(165)	215,269	410,961	(155,993)	(2)	254,966