

Integrated Dental Holdings



Q4 FY2018 and year-end results - investor presentation
27 June 2018

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Agenda

- Chief Executive overview and progress update
- New appointments
- Performance & business update
 - **mydentist** developments
 - **Dental Directory** developments
- Financial review
- Outlook
- Summary
- Q&A

Chief Executive overview



Chief Executive overview

- 12 months on from appointment
- Identified business with significant potential but suffering from some bad historic decisions and operational performance issues

Strengths

- Largest network in the market with the highest number of practices, clinicians and customers
- Only integrated dental services business
- High-quality clinical care

- Lack of focus on recruitment and retention of nurses and clinicians
- Tail of under-performing practices
- Declining clinician productivity
- Increasing cost base

Performance issues

Description

		Description	
1	Support and advance high clinical standards	Develop best-in-class clinical pathways and procedures to deliver consistent, high quality and ethical dental care	
2	Improve clinician and nurse resourcing and retention	Maintain a best-in-class recruitment team to promote a more compelling clinician proposition and fill all vacancies	
3	Optimise practice performance	Increase practice performance and drive improved like-for-like total diary hours, UDA completion rates, and number of committed hours/UDAs per dentist	
4	Continue growth of private dentistry	Develop and roll-out an affordable private proposition across specialist treatments, Private Payment Plans and Advanced Oral Health Centres	
5	Grow Dental Directory	Grow the business through organic opportunities and deliver the growth plan	
6	Ensure every practice is sustainable	Re-assess the portfolio to identify practices that may be merged, closed or sold in FY2019	
7	Improve efficiency	Improve efficiency to reduce unnecessary costs across the group	

Highlights

- We have **supported 4 million patients**
- **94% of patients** would recommend us to a loved one
- 4 practices have been given **notable status** by the CQC
- Shortlisted for **Dental Awards 2018** and **winner of Dentist of the Year**
- **Making the right strategic investments** in our teams to grow
- Supporting our **private growth**
- Ensuring clinicians have access to the **right materials and equipment**
- PDS named **Dental Laboratory of the Year**

New appointments



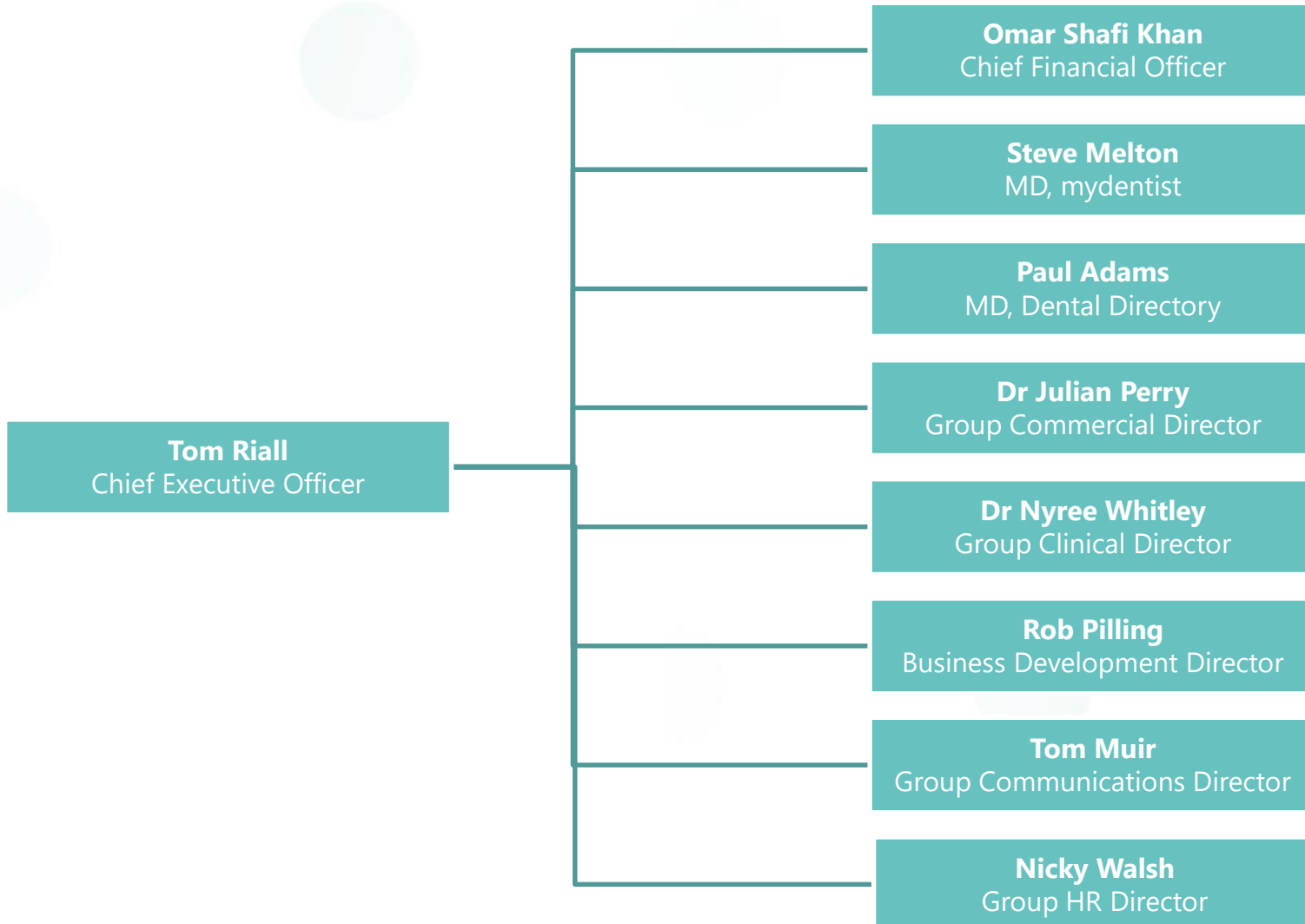
New appointments



Paul Adams – Managing Director: Dental Directory

- Joined IDH Group as Managing Director of the Dental Directory division on 1 May 2018
- Over 20 years experience in retail, technology and healthcare
- Strong focus on operational delivery as Chief Operating Officer then Chief Executive Officer of Talaris Limited, the cash management company previously owned by Carlyle
- Developed the business through to a successful sale
- Joins Dental Directory from Redeem Group where he was CEO

Executive team



Q4 FY2018 Performance & business update



Q4 FY2018 group performance



Group

- Revenue down 1.8% YoY to £148.3m for the quarter
- Q4 EBITDA down £2.8m to £14.2m
- Revenue down 0.9% to £580.5m for the full year with EBITDA down to £55.1m



mydentist

- Private revenue LFL growth of 6.7% per working day for the year
- Divisional revenue down 3.5% in the quarter due to lower UDA delivery
- Gross margin improved to 47.1% for FY2018



Dental Directory

- Revenue growth of 4.4% YoY to £37.9m (before intergroup eliminations) for the quarter
- Gross margins down 2.0% on Q4 FY2017

NHS revenue

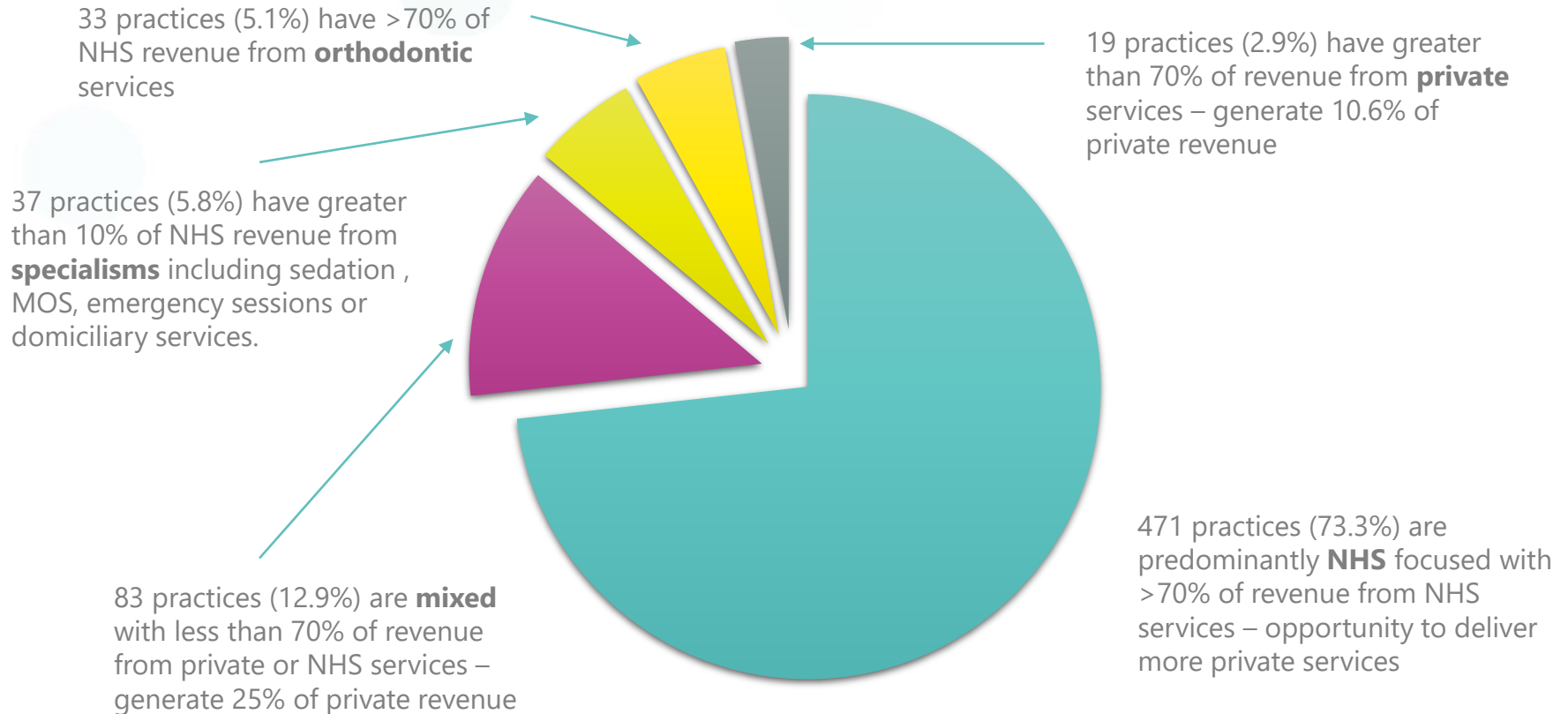
- NHS revenue of £93.7m, down £4.5m (-4.6%) for the quarter
- UDA delivery percentage for the year down to 86.1% after handbacks (FY2017: 90.4%)
- 11.7m UDAs delivered in FY18 (12.6m in FY17)
- Like-for-like UDA delivery per working day for March was in line with the previous year despite disruption from severe weather
- Key FY2019 initiatives are to:
 - Increase the productivity of existing clinicians
 - Continue to improve the flow of new clinicians and develop the pipeline of new dentists
 - Continue private revenue growth to ensure patient choice while delivering the commitment to the NHS

Private revenue

- Private revenue for Q4 was £24.8m, an increase of 1.0% on last year
- Q4 like-for-like private growth, adjusted for the number of working days, increased by 4.2%
- Growth has been strong in general private in Q4 (+12.9% LFL over two years) and in hygiene (+14.6% LFL over two years) reflecting the choice and additional options being provided to patients
- As highlighted at Q3, in line with our strategy we have started our roll-out of our first 8 Advanced Oral Healthcare Centres which provide specialist services such as implants and endodontics within existing practices
- Like-for-like growth per working day for the full year was 6.7%
- Private market expanding faster than NHS through adult orthodontics, whitening and implants

Q4 FY2018 summary – mydentist

mydentist practice segmentation



Q4 FY2018 summary – mydentist

Resourcing & on-boarding

- £3.0m investment into the resourcing process during the year
- Full team in place during Q4 FY2018
- Strategic plan objectives
 - Continue to build up the pipeline of new dentists
 - Current pipeline today is at record levels with over 275 dentists going through the on-boarding process
 - Make on-boarding as efficient and rapid as possible
- Additional net 232 clinicians started in practice during the year
- Clinician churn remains low and under 10%

Resourcing & on-boarding

- Now actively recruiting from all four major sources of clinicians

UK Registered Dentists

- Working for independents or other corporates

EU & ORE dentists already in the UK

- Looking for a mentor

EU & ORE dentists practising overseas who are open to the UK

- Will require a mentor

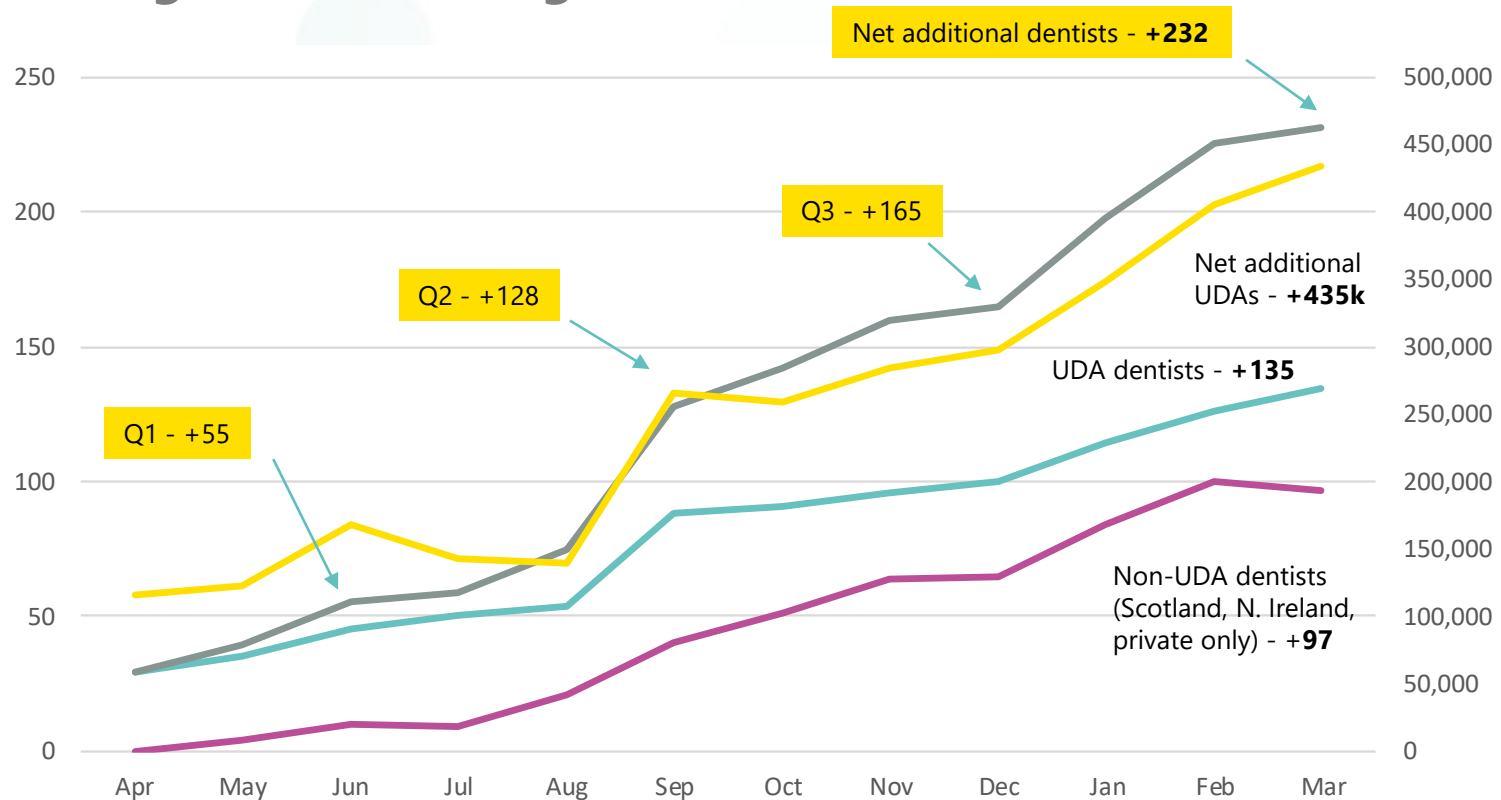
Foundation dentists

- Complete training each September

- At the end of the financial year, 378 trained mentors were in place with 94 mentees working in practices

Q4 FY2018 summary – mydentist

Resourcing & on-boarding



- Acceleration of process as investment in the recruitment team only mature at the end of Q4
- Average UDA contract per new starter 3,000 with scope to increase

Orthodontic services

- Unlike NHS general dentistry contracts which are “evergreen”, orthodontic NHS contracts are time-limited
- Contracts typically have a duration of three to five years, however current contracts have been rolled to coincide with a national re-tendering exercise during the year ending 31 March 2019
- New contracts are likely to have a lifespan of 5-10 years
- Orthodontic contract performance has been good and contract performance is typically close to 100%
- EBITDA risk to current contracts through both volume and price from 1 April 2019 but opportunities to add incremental contract value also available

Q4 FY2018 summary – Dental Directory



- Total revenue after excluding sales to mydentist up 5.7% to £29.8m for Q4, and up 6.9% for the year to £112.1m
- Growth in revenue driven by the High Street up 5.3% for the full year although trading conditions have become more difficult in Q4
- Fluctuations in the currency markets have had some impact on gross margin especially with regard to some fixed price NHS contracts
- Cost increases for operational and acquisition-led growth have impacted EBITDA – change in strategy means costs are under review
- Growth continuing month-by-month in the Mulholland business
- Dolby securing annual maintenance contract renewal rates of over 95%
- New management to focus on operational efficiency and higher margin growth

Financial review



Q4 FY2018 Financial highlights

- Group revenue down 1.8% year-on-year to £148.3m
- LFL mydentist private revenue up 4.2% per working day
- Private revenue now 16.7% of total revenue (Q4 FY2017: 16.3%)
- NHS revenue 63.2% of total (Q4 FY2017: 65.1%)
- Dental Directory revenue 20.1% of total (Q4 FY2017: 18.6%)
- As expected EBITDA down £2.8m on Q4 FY2017 to £14.2m

Financial results for Q4 FY2018

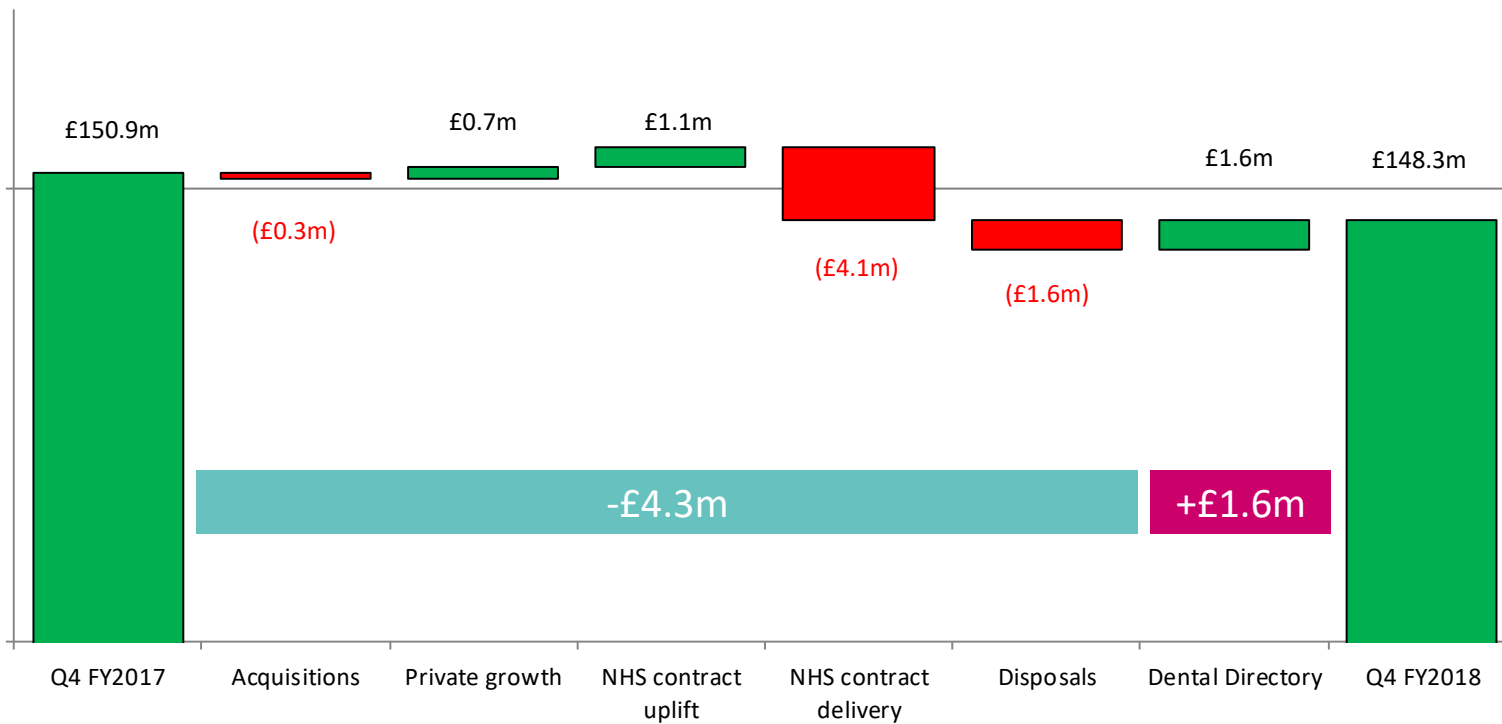
Income statement

	Q4 FY2018 £m	% of revenue	Q4 FY2017 £m	% of revenue	% change
Revenue	148.3		150.9		(1.8)%
Gross profit	64.7	43.7%	66.1	43.8%	(2.0)%
Overheads*	(51.0)	34.4%	(49.4)	32.7%	(3.2)%
Other operating income	0.5	0.3%	0.4	0.3%	17.6%
EBITDA	14.2	9.6%	17.1	11.3%	(16.6)%

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

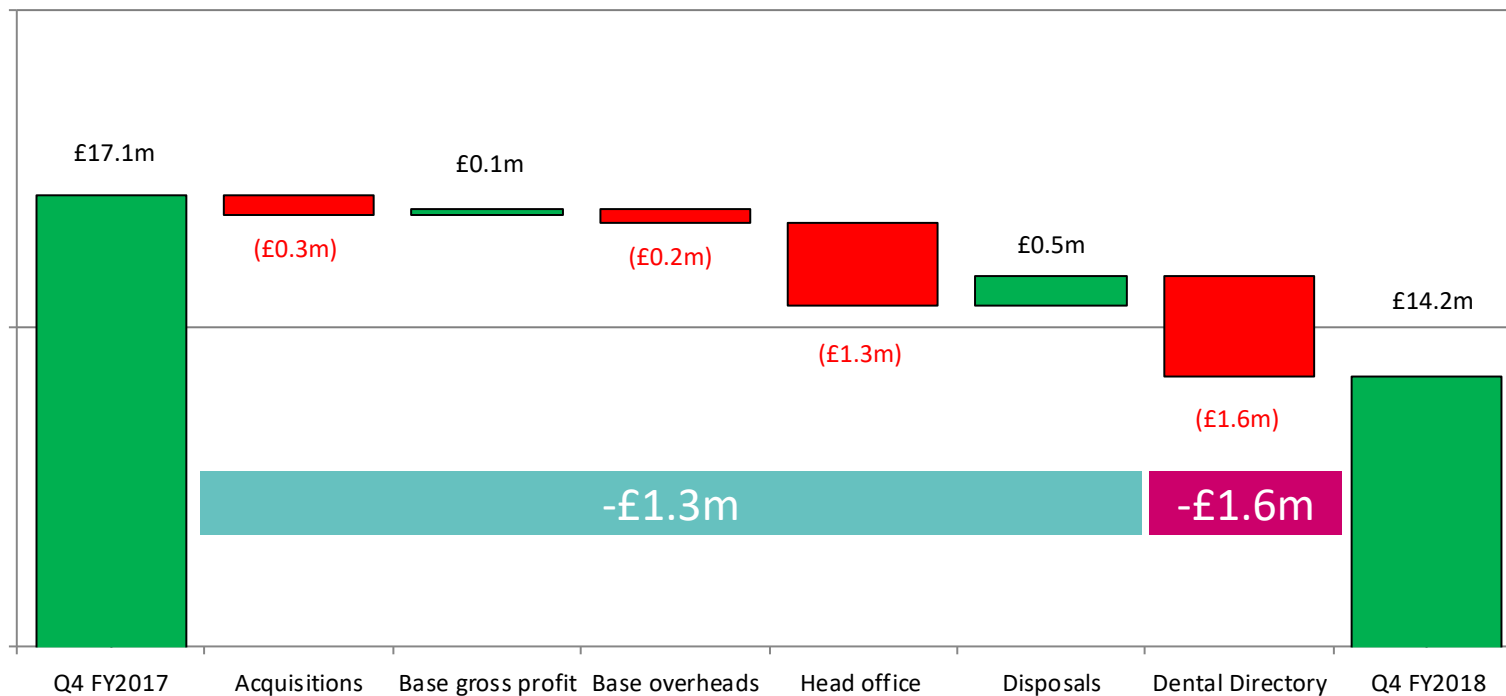
Financial results for Q4 FY2018

Group revenue bridge



Financial results for Q4 FY2018

Group EBITDA bridge



Financial results for Q4 FY2018

Acquisitions & Disposals



- Total of 643 practices at 31 March 2018 (674 at 31 March 2017)
- The actions from the portfolio review during the quarter led to
 - Closure of 5 practices in Q4 (Full year – 17 practices)
 - Sale of 6 practices (Full year – 13 practices)
 - An additional 3 practices reclassified as “held for sale” on the balance sheet and the excess of book value compared to estimated realisable value written off during Q4
 - 17 practices now classified as held for sale
- Following the budget process for FY2019, a further 21 practices were identified as not sustainable in the long run and will be closed or sold by the end of Q2 FY2019
- No further disposals are planned after Q2 FY2019 leading to a go-forward estate of 603 practices
- No plans for any further acquisitions in either division

Financial results for Q4 FY2018

Cash flow statement

£m	Q4 FY2018	Q4 FY2017
Cash generated from operations	21.5	22.2
Net capital expenditure*	(6.7)	(3.6)
Corporation tax	-	-
Cash flow before acquisitions and debt service	14.8	18.6
Interest	(14.4)	(15.2)
Cash flow before acquisitions and financing	0.4	3.4
Acquisitions**	(0.3)	(0.7)
Debt issue costs	-	-
Financing	-	-
Net cash flow	0.1	2.7
Opening cash	16.1	9.9
Closing cash	16.2	12.6
Net debt	531.5	527.6

* Net capital expenditure includes £0.5m proceeds from the sale of practices (Q4 FY2017 includes £1m from sale of freehold properties) —

** Excluding fees

Financial results for Q4 FY2018

Cash conversion

£m	Q4 FY2018	Q4 FY2017
Operating cash flow	21.5	22.2
Exceptionals	0.5	0.2
Acquisition fees	0.1	0.1
Working capital adjustments	-	-
Adjusted operating cash flow	22.1	22.5
Maintenance capital expenditure	(7.3)	(3.9)
Adjustments	-	-
Adjusted cash flow	14.8	18.6
EBITDA	14.2	17.1
Adjusted cash conversion %	103.8%	109.0%

FY2018 Financial highlights

- Group revenue down 0.9% year-on-year to £580.5m
- UDA delivery rate of 86.1% after £6.5m of permanent and £5.7m of temporary handbacks (FY2017: 90.4%)
- LFL UDA delivery down 4.8% per working day
- LFL mydentist private revenue up 6.7% per working day
- Private revenue now 17.2% of total revenue (FY2017: 16.4%)
- NHS revenue 63.5% of total (FY2017: 65.7%)
- Dental Directory revenue 19.3% of total (FY2017: 17.9%)
- EBITDA down £13.7m on FY2017 to £55.1m
- Estimated pro-forma adjusted EBITDA of £57.3m

Financial results for FY2018

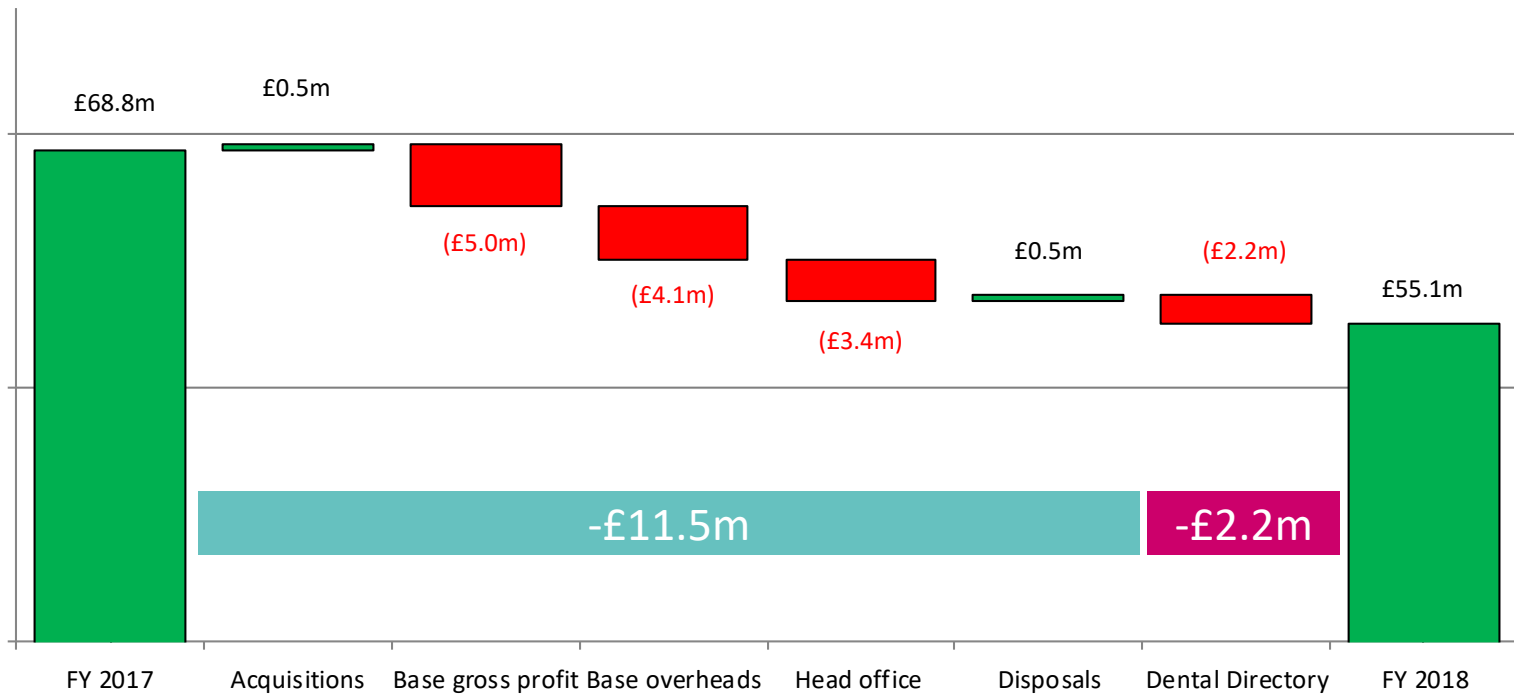
Income statement

	FY2018 £m	% of revenue	FY2017 £m	% of revenue	% change
Revenue	580.5		585.8		(0.9)%
Gross profit	252.7	43.5%	261.0	44.6%	(3.2)%
Overheads*	(199.6)	34.4%	(194.2)	33.1%	(2.8)%
Other operating income	2.0	0.3%	2.0	0.3%	(2.3)%
EBITDA	55.1	9.5%	68.8	11.7%	(19.9)%

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

Financial results for FY2018

Group EBITDA bridge



Financial results for FY2018

Cash flow statement

£m	FY2018	FY2017
Cash generated from operations	65.9	72.9
Net capital expenditure*	(17.9)	(19.7)
Corporation tax	-	-
Cash flow before acquisitions and debt service	48.0	53.2
Interest	(40.3)	(38.5)
Cash flow before acquisitions and financing	7.7	14.7
Acquisitions**	(9.1)	(10.4)
Debt issue costs	-	(11.1)
Financing	5.0	4.5
Net cash flow	3.6	(2.3)
Opening cash	12.6	14.9
Closing cash	16.2	12.6
Net debt	531.5	527.6

* Net capital expenditure includes £1.2m proceeds from the sale of practices (FY2017 proceeds of £1m from sale of four freehold properties)

** Excluding fees

Outlook



Q1 FY2019 Outlook

- Q1 tale of two parts
- mydentist:
 - Growth in revenue with margins maintained
 - EBITDA growth likely of +£1.0m
- Dental Directory
 - Struggle to deliver revenue
 - EBITDA likely to be down on prior year
- EBITDA likely to be flat year-on-year at £12.5m-£13.0m

- Return to growth in overall revenue with UDA delivery improvement of 2-3%, private LFL +5-7% growth
- EBITDA
 - Expect to see growth year-on-year in H2 in mydentist
 - mydentist EBITDA forecast at £53m-£55m
 - Dental Directory forecast at £5m-£6m
 - Outturn for the year between £58m-£60m
- Capex investment in practices increase of £3m-£4m over the year
- Cash outflow likely in H2 due to improvement in UDA delivery – small drawdown from the SSRCF
- Continue to keep acquisitions on hold until confident of sustained turnaround in performance

Summary

- FY2018 was a year of transition
- New high calibre leadership team now fully in place
- Some good progress but significant financial underperformance in FY2018
- Challenges for FY2019
 - Building momentum in improved UDA delivery whilst maintaining strong private sales
 - Re-focussing Dental Directory activities on core business

Summary

- Some improvements coming through in Q1 FY2019
 - Resourcing and on-boarding
 - Productivity
 - Removing structurally weak and underperforming practices
 - Continued private and specialist growth and new Advanced Oral Health Centres
 - Good cost control of locums and general efficiency gains

Contact details:

Further questions can be addressed to:

- Email: investorrelations@mydentist.co.uk
- Telephone: 01204 799651

Investor information is available from our dedicated investor website:

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