

ABANO HEALTHCARE GROUP FULL YEAR FINANCIAL RESULTS ANNOUNCEMENT

Focus On Growth Continues For Healthcare Investor

Healthcare investor and operator, Abano Healthcare Group (NZX:ABA) has delivered a Net Profit After Tax (NPAT) of \$4.9 million for the 2014 financial year, a 75% increase on the previous year and at the top of the Company's guidance.

Revenues for the year ended 31 May 2014 were \$211.1 million, with Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA¹) of \$27.8 million.

The Company also reports gross revenues², which include revenues from the joint venture audiology group and Australian dental revenues before payment of dentists' commissions. Gross revenues increased to \$274.0 million, primarily driven by growing dental revenues but also reflecting the continued growth in the Australian audiology business as it reduces its losses and moves towards achieving a breakeven result.

Underlying earnings, which exclude acquisition expenses, were \$29.1 million at underlying EBITDA³, giving an underlying NPAT³ of \$6.1 million.

Including the equity accounted audiology businesses, over 50% of Abano's revenues are now generated in Australia. A strong New Zealand dollar continued to impact on reported results, with a year on year negative foreign exchange rate movement of approximately 13% in the New Zealand dollar when compared to the Australian dollar. This translated to a negative, non-cash \$17.7 million impact at gross revenue and \$1.8 million at underlying EBITDA, when compared to the previous year.

In addition, the results include one-off costs of \$0.7 million incurred by Abano in relation to the unsolicited proposal received from Archer Capital along with interests associated with Peter Hutson and James Reeves, and the subsequent actions of Messrs Hutson and Reeves interests, including requisitioning a special meeting of shareholders and advice on the responses to their complaints to the FMA and the NZX. As noted at the recent special meeting of shareholders, all of these complaints were dismissed.

These two factors, the exchange rate and the one off costs above, flattened the reported year on year performance and improvement at underlying EBITDA by \$2.5 million.

\$m	FY13	FY14	% change
Gross Revenue²	257.8	274.0	6%
Revenue¹	207.0	211.1	2%
EBITDA¹	27.7	27.8	0%
Underlying EBITDA³	28.6	29.1	2%
NPAT	2.8	4.9	75%
Underlying NPAT³	4.5	6.1	35%

Directors have confirmed a final dividend of 13.7cps, maintaining the annual dividend at 21cps for the financial year ended 31 May 2014. This is equal to 67% of underlying NPAT. The Dividend Reinvestment Plan (DRP) will again be offered to shareholders and, in line with previous periods, it is anticipated that around 50% of the dividend will be taken up in shares.

Year-end net bank debt was \$76.0 million, resulting in a gearing ratio (net bank debt/net bank debt plus total equity) of 44%, with confirmed undrawn facilities of over \$60 million. Following the successful capital raising in late 2013 and the continuation of the existing DRP, the Company has a sound capital structure.

Management Commentary

Gross revenues for the Group reached \$274.0 million. Had the exchange rate been the same as in FY13, gross revenues would have been \$291.7 million, a 13% year on year increase.

The biggest contributor to the gross revenue growth in FY14 was our trans-Tasman dental group, along with our Australian audiology joint venture business, both of which performed strongly during the year. Our orthotics, pathology and radiology businesses all delivered consistent results, in line with expectations.

Growth through acquisition is still the key focus for the dental sector, as we build scale in this very large and attractive market. Our trans-Tasman dental group continued to grow, with 154 practices as at financial year-end.

Organic growth was also important, with a focus on extended clinical hours, increased patient buy-in to treatment plans and an emphasis on attracting new patients. In New Zealand, this included the continuation of our successful Lumino marketing campaign, increasingly supported by online tools to improve the customer's interaction with Lumino.

We continued to invest into building strong dental organisations with ongoing investment into appropriate infrastructures to support our two very large dental networks. In Australia, a number of new senior management appointments have been made, including, in recent days, a full time marketing manager in readiness for a roll-out of branding and consumer marketing strategies later in FY15.

The increasing size of the dental group is providing a stronger negotiating position with suppliers and more economies of scale are being achieved. The trans-Tasman integration of shared resources was extended to a common Chief Information Officer and a Procurement Manager to coordinate the centralisation of purchasing to realise additional scale synergies.

The dental sector result in FY14 was impacted by the weak Australian dollar, which masked the positive performance of the Australian dental business, Dental Partners, with gross revenues depressed by \$14.3 million and underlying EBITDA by \$1.8 million had the exchange rate been the same as in FY13.

Our Bay Audio Australian joint venture significantly reduced its losses in FY14, with the Australian management team improving same store performance, resulting in a 44% increase in local currency revenue compared to FY13. While the Australian business incurred a FY14 EBITDA loss, we expect it to achieve a positive EBITDA result for FY15. The Bay Audio Asia group, which remains a very small part of the total audiology business, is still focused on achieving a monthly EBITDA breakeven performance.

The investment made into Insight+Ascot Radiology in Auckland over the last few years has provided a solid platform to build on. During the year, management focused on growing the demand for its services, with capacity steadily filling at both start-up clinics – the Millennium Centre, which officially opened in March 2013, and the PET-CT scanning centre at Ascot Central. Good progress is being achieved with growing referrals in both areas and increasing referrals in all other modalities compared to the same period last year.

Aotea Pathology maintained earnings as it continued to deliver a high quality, community pathology service to the greater Wellington area, under its current DHB contract extension which runs until the end of October 2015. Aotea and Abano management have been working closely with the area DHBs and we are currently involved in a collaborative process looking to provide a regional pathology solution for the Wellington, Hutt Valley and Kapiti Coast communities. We hope that this process will lead to a substantially longer contract tenure, through an expanded service and provide significant savings for the DHBs involved.

The Orthotics Group, which provides clinical orthotic services in most major cities around New Zealand, delivered a steady result in line with expectations and last year. The business is predominantly funded by DHBs and ACC and it continues to work closely with these parties to renew and secure contract tenure. The rehabilitation sector results were slightly down on FY13, as the previous year's result included one month of earnings from the brain injury rehabilitation business, which was sold in July 2012.

Looking Forward

Our focus on building long term value has not over-ridden our ability to consistently deliver attractive near term value growth for our shareholders with an annual dividend that is yielding a gross return of 4.8% based on the closing share price on Friday 25 July 2014. Since 2006, we have delivered an average gross annual return of over 30% to our shareholders, compared to a 4.4% return from the NZX50 over the same period.

Over the last eight years, our portfolio has changed as we have exited businesses which we believe have reached maturity or have limited potential for further growth in the Abano Group. We have then invested in other businesses which we believe will provide more attractive and sustainable long term value and create greater shareholder wealth.

Dental remains the primary investment area for Abano in FY15 and we will continue to grow our dental group through acquisition, as well as realising synergies delivering further economies of scale, increasing margins and providing shareholders with growing and attractive returns.

While economic conditions in New Zealand are slowly improving, they remain difficult in Australia. Our operational focus is firmly on lifting year on year same store performance for both our audiology and dental businesses.

We have a strong and supportive relationship with our bankers and based on current projections, we will not need to raise additional capital or increase debt facilities in the foreseeable future to fund our planned acquisition and growth strategy investments.

We expect to again deliver improved underlying EBITDA and NPAT in FY15. Directors are reviewing the dividend policy and expect to implement a new policy for the FY15 interim dividend following the steady growth achieved in our NPAT and underlying earnings.

Key Dates

11 August 2014	Dividend record date
18 August 2014	Confirmation of issue price for shares under the DRP (Shares will be issued at a 2.5% discount on the closing price)
21 August 2014	Dividend payment and issue of shares under DRP

ENDS

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Abano Healthcare Group is New Zealand's leading listed specialist healthcare investor and operator, with businesses in four sectors – audiology, rehabilitation, diagnostics and dental – and operations across New Zealand, Australia and Asia.

¹ Revenue and EBITDA exclude earnings generated by Bay International, in which Abano holds a 50% shareholding. The results for the Bay Group are equity accounted and are therefore not included in the consolidated EBITDA.

² Gross revenue includes revenue earned by the equity accounted audiology group and Australian dental revenues before the payment of dentist's commissions.

³ Excludes irregular gains or losses and IFRS adjustments. Further information on underlying EBITDA and underlying NPAT, which are non-GAAP financial measures and are not prepared in accordance with NZIFRS, is available on the Abano website.