



IDH Finance plc
Quarterly Financial Report
3 months ended 30 September 2014

Contents

Summary highlights	3
Management’s discussion and analysis of financial condition and results of operations	4
Risk factors and recent developments	10
Unaudited condensed consolidated financial statements:	11
Profit and loss account	12
Balance sheet	14
Cash flow statement	15
Reconciliation of net cash flow to movement in net debt	17
Notes	19

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 2014 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.

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 and six month periods ended 30 September 2013. 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 2014 but not in both.

The comparative year-to-date information for the six month period to 30 September 2013 includes the period prior to the closing of the notes offering by IDH Finance plc, which took place on 30 May 2013 (“closing”).

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

- EBITDA before exceptional items for the three months ended 30 September 2014 (“Q2 FY15”) increased to £19.1m, 22.3% up on the three months to 30 September 2013.
- Q2 FY15 turnover was £133.2m. Year on year turnover growth, predominantly driven by acquisitions, was 36.4%.
- Q2 FY15 like-for-like private revenue growth of 13.8%.
- With the inclusion of Dental Directory’s post acquisition results:
 - Q2 FY15 gross margin percentage of 44.9% compared to 48.9% in the three months to 30 September 2013.
 - Administrative expenses, excluding depreciation, goodwill amortisation and exceptional items, as a percentage of turnover was 30.9%, reduced from 33.3% in Q2 FY14.
- Increase in LTM EBITDA to £73.6m and pro-forma LTM EBITDA to £86.0m.
- 30 practices were acquired during the quarter, including a group of 26 practices predominantly operating across Wales – total practices increased to 621.
- Operating cash generated of £22.8m increased from £14.5m in Q2 FY14.
- Maintenance capital expenditure for the quarter ended 30 September 2014 was £4.6m.
- Normalised cash conversion adjusting for one-off items in working capital and maintenance capital expenditure was 101.6%.
- £23.4m was spent on acquisitions during the quarter.
- Cash and cash equivalents at 30 September 2014 of £23.0m and net debt was £479.1m.
- Gearing levels are 6.51 times and 5.57 times LTM EBITDA and pro-forma LTM EBITDA respectively.

- My Dentist is the new brand name for the IDH practices.
 - Launch commenced in October 2014.
 - c.90 practices to be converted to the new fascia by March 2015 as a trial concept.
 - Depending on the trial remaining practices to be converted in the year to March 2016.

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 2014.

IDH is the leading provider of dental services in the United Kingdom with a network of 621 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.

Following the acquisition of The Dental Directory ("DD") in April 2014 and the Dental Buying Group ("dbg") in April 2013, the group is also a leading provider of materials, equipment and services to dental practices across the UK. In conjunction with the Academy (provision of internal and external learning facilities), DD and dbg now 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 2013 to 30 June 2014 and for the quarter ended 30 September 2014 are provided below:

Key performance indicators	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015
Turnover (£m)	97.6	104.4	106.7	123.9	133.2
EBITDA (£m)	15.6	17.7	19.1	17.7	19.1
LTM EBITDA (£m)	61.5	64.8	67.8	70.1	73.6
Operating profit (£m)	4.0	4.2	6.4	4.5	4.3
NHS dentistry services as a percentage of turnover	85.0%	84.6%	84.4%	71.3%	69.2%
Private dentistry services as a percentage of turnover	13.3%	13.7%	13.8%	12.7%	12.7%
Practice services as a percentage of turnover	(1)	1.7%	1.7%	1.8%	18.1%
Like-for-like private turnover growth	7.6%	12.6%	8.4%	15.0%	13.8%
Gross profit margin %	48.9%	48.0%	48.4%	44.9%	44.9%
Administrative expenses as a percentage of turnover	33.3%	31.4%	30.9%	30.9%	30.9%
EBITDA margin %	16.0%	17.0%	17.9%	14.3%	14.4%
Number of dental practices	561	570	585	592	621
Maintenance capital expenditure (£m)	4.4	3.8	5.1	4.7	4.6
Cash conversion after maintenance capital expenditure %	(2)	67.6%	60.6%	72.0%	100.6%
Proforma EBITDA (£m)	71.6	73.0	84.8	83.8	86.0

(1) Turnover from practice services includes the Dental Buying Group ("dbg") and The Dental Directory and totals £24.1m in Q2 FY15 (Q2 FY14: £1.6m).

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

In the quarter ended 30 September 2014, we acquired 30 dental practices for a total of 621 dental practices in our estate as at the quarter end.

Turnover

Group turnover increased by £35.5m, or 36.4%, from £97.6m for the three month period ended 30 September 2013 (“Q2 FY14”) to £133.2m for the three month period to 30 September 2014 (“Q2 FY15”).

Turnover derived from dental practices increased by £13.1m from £96.0m to £109.1m. The remaining £22.5m increase was delivered from new services provided to dental practices and other associated businesses following the acquisition of The Dental Directory in Q1 FY15 and including dbg.

Group turnover	Q2 2015 £'000	Q2 2014 £'000	Movement £'000
Practices owned as at 1 April 2013	94,243	91,155	3,088
Practice disposals	-	81	(81)
Practices acquired or opened:			
During the 12 months ended 31 March 2014	11,259	4,759	6,500
During the 6 months ended 30 September 2014	3,557	-	3,557
Dental practice turnover	109,059	95,995	13,064
Practice services and other turnover	24,094	1,619	22,475
Group turnover	133,153	97,614	35,539

Turnover of £11.3m was contributed by the 61 practices acquired or opened during the period 1 April 2013 to 31 March 2014 (“FY14 acquisitions”) in the quarter ended 30 September 2014, a £6.5m increase over the £4.8m contributed by the 30 practices acquired or opened in the first half of the last financial year. The 39 practices acquired or opened during the first half of FY15 (“FY15 acquisitions”) contributed an additional £3.6m.

It should be noted that the Q2 FY14 turnover numbers were impacted by the systems issue that affected c.45% of the practice estate. The financial effect on EBITDA was estimated to be between £1.0m-£1.5m.

NHS revenue

NHS revenue for the quarter ended 30 September 2014 was £92.1m, an increase of £9.1m and 11.0% from £83.0m in Q2 FY14.

This increase was principally due to the impact of acquisitions with £7.7m generated by FY14 and FY15 acquisitions.

Practices owned at 1 April 2013 increased their revenue from NHS contracts from £79.1m to £80.5m due to the 1.6% NHS dentistry contract uplift applied to the contracted Units of Dental Activity (“UDA”) from 1 April 2014.

Included within the NHS revenue number is £6.9m (Q2 FY14: £6.3m) generated from the delivery of Orthodontic services under contracts with NHS England.

Private revenue

Private revenue for the quarter ended 30 September 2014 was £16.9m, 30.5% higher than £13.0m for the equivalent period in FY14.

Practices owned at 1 April 2013 increased private sales by £1.7m or 13.8% to £13.7m for the quarter with acquired practices generating £2.4m additional private revenue. Private revenue increases have been generated through recommended price increases, the development of additional services for the dentist associates to provide to our patients and increased training in providing patient choice.

Practice services and other revenue

Revenue of £24.1m (Q2 FY14: £1.6m) has been generated from The Dental Directory, dbg and other services.

Cost of sales

Gross margin for the quarter ended 30 September 2014 was 44.9% a 4.0% decrease from 48.9% in the quarter ended 30 September 2013. This movement is due to a change in sales mix following the acquisition of The Dental Directory in April 2014. Dental practice gross margin for Q2 FY15 was 48.5% (Q2 FY14: 48.8%), compared to 28.6% for practice services.

Cost of sales increased by £23.5m and 47.0% from £49.9m to £73.4m for the quarter. The increase in the cost of sales is primarily the result of the Dental Directory acquisition which, along with dbg and other services added £16.5m. In addition, trading from FY14 and FY15 acquisition sites increased cost of sales by £5.1m.

The mix effect of increased private turnover and the associated higher dentist fee rates, lab and materials costs have slightly diluted the effect of the margin increase arising from the 1.6% NHS contract uplift.

Margins continue to be assisted by a reduced level of locum usage in dental practices compared to Q2 FY14.

Administrative expenses

Administrative expenses including goodwill amortisation and depreciation were £55.9m for Q2 FY15, an increase of £11.7m from £44.2m in the three months to 30 September 2013. Administrative expenses excluding goodwill amortisation, depreciation, grant income and exceptional items were £41.1m, an increase of £8.6m from £32.5m in Q2 FY14.

The movement in administrative expenses is primarily due to the overheads of the acquired Dental Directory business of £4.3m, in addition to 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 2014, staff costs were £26.6m, an increase of £5.2m from £21.4m in Q2 FY14. This increase is due to the Dental Directory acquisition (£2.5m), practice acquisitions (£1.8m) and a general staff pay increase of 1.5% awarded at the beginning of April 2014.

Rent expense for the quarter was £3.0m, 2.2% of revenue and an increase of £0.6m from £2.4m in FY14. The increase was due to the growth in the number of practices and the acquisition of The Dental Directory.

Dental equipment and practice property maintenance costs for Q2 FY15 were £2.3m, £0.3m higher than Q2 FY14 due to the increased practice estate.

Other operating income

Other operating income for the three months ended 30 September 2014 was £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 £3.5m, or 22.3% from Q2 FY14 (£15.6m) to Q2 FY15 (£19.1m).

Exceptional items

The exceptional item of £1.0m primarily relates to professional fees incurred as part of the review of the strategic options being undertaken by management and shareholders.

Year to date performance

In the six months to 30 September 2014 turnover increased by 30.9% from £196.3m to £257.0m. This increase was driven by the acquisition of The Dental Directory in Q1 2015, the Practice Services division, including Dental Directory and dbg, has added £40.6m of revenue year-on-year. In addition the dental practice acquisition programme over the last two years, together with growth from our existing practices through private revenue has led to an increase in turnover of £20.1m.

Practices acquired during FY14 and FY15 have added £17.8m of revenue to the group results in the year to date. Practices owned at 1 April 2013 have generated £2.4m through a 14.4% increase in private turnover partially offset by a 0.6% reduction in NHS revenue. The reduction in NHS revenue reflects a slow start to the NHS contract year, partially offset by the 1.6% dentistry contract uplift received from the NHS. Management anticipate that the UDA shortfall will be recovered over the balance of the NHS contract year to 31 March 2015.

Group turnover	YTD 2015 £'000	YTD 2014 £'000	Movement £'000
Practices owned as at 1 April 2013	187,447	185,007	2,440
Practice disposals	-	165	(165)
Practices acquired or opened:			
During the 12 months ended 31 March 2014	21,689	7,786	13,903
During the 6 months ended 30 September 2014	3,857	-	3,857
Dental practice turnover	212,993	192,958	20,035
Practice services and other turnover	44,013	3,382	40,631
Group turnover	257,006	196,340	60,666

EBITDA before exceptional items for the year to date has increased from £31.0m in FY14 to £36.8m in FY15, an increase of 18.8%.

Quarter-on-quarter performance has improved with revenue in Q2 FY15 up £9.3m from Q1 FY15. EBITDA is up £1.4m, 7.9% in Q2 compared to Q1.

Pro-forma LTM EBITDA

	£'000
LTM EBITDA before exceptional items at 30 September 2014	73,601
Estimated adjusted EBITDA of acquired dental practices at 30 September 2014	6,487
<u>Adjusted EBITDA for The Dental Directory including annualised synergies</u>	<u>5,918</u>
Estimated pro-forma adjusted LTM EBITDA	86,006

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.

For The Dental Directory, the EBITDA adjustments include the effect of the synergies described in the Offering Memorandum dated 6 May 2014.

Interest

An interest charge of £7.7m arises from charges related to the £200.0m 6% Senior Secured Fixed Rate Notes, £225.0m Senior Secured Floating Rate Notes and £75.0m Second Lien Note.

The remaining £2.0m relates to the amortisation of arrangement fees, interest rate swap charges and interest charges in respect of the Super Senior Revolving Credit Facility.

Debt and liquidity

At 30 September 2014, the net debt was £479.1m, compared to £465.1m at 30 June 2014. This movement is primarily due to the drawdown of funds against the Super Senior Revolving Credit Facility and a small decrease in cash balances during the quarter.

Net cash flow for the quarter was an outflow of £0.4m. This reflected drawdowns from the Super Senior Revolving Credit Facility of £13.0m, cash generated from operating activities of £22.8m and proceeds from the sale of freehold property of £6.4m, offset by expenditure of £23.4m on acquisitions, £5.7m for capital expenditure, including the refurbishment of acquisition sites, £13.1m for the servicing of finance and £0.4m of debt issue costs relating to the issue of additional Senior Secured Floating Rate Notes in May 2014.

£6.0m of the drawdown from the Super Senior Revolving Credit Facility was repaid in October 2014.

Working capital movements

Net cash inflow from operating activities increased from £14.5m in Q2 FY14 to £22.8m in Q2 FY15 and the ratio of EBITDA to operating cash flow increased from 93.0% to 119.5%.

Capital expenditure

Net capital expenditure for Q2 FY15 was an inflow of £0.7m. Adjusted for proceeds of £6.4m from the sale of freehold property, gross capital expenditure of £5.7m included acquisition refurbishments of £1.1m and “maintenance” capital expenditure of £4.6m.

Maintenance capital expenditure included £0.4m for the relocation of the Leatherhead practice to 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 100.6% compared to 67.6% in the corresponding quarter in FY14. The uplift in the ratio is due in part to the timing of UDA delivery between H1 FY15 and H2 FY15.

Cash conversion was reduced by the relocation capital expenditure project discussed above. After taking these items into account, cash conversion would increase to 101.6% for the quarter.

Acquisitions

Acquisitions capital expenditure in the quarter was £23.4m and in addition to individual practice acquisitions, included the acquisition of the Denticare group of 26 dental practices, predominantly operating across Wales.

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 2014.

Turnstone Midco 2 Limited

Condensed consolidated interim financial statements – Unaudited

Q2 2015 – 3 month period ended 30 September 2014

Profit and loss account (unaudited)

For the quarter ended 30 September 2014

	<i>Note</i>	Q2 2015 £'000	Q2 2014 £'000
Turnover	3	133,153	97,614
Cost of sales		(73,378)	(49,902)
Gross profit		59,775	47,712
Administrative expenses		(55,865)	(44,167)
Other operating income		431	448
Operating profit		4,341	3,993
EBITDA before exceptional items		19,118	15,628
Depreciation		(4,220)	(3,317)
Amortisation of goodwill		(9,678)	(8,442)
Amortisation of grant income		102	135
Exceptional items		(981)	(11)
Operating profit		4,341	3,993
Profit/(loss) on disposal of assets		1,236	(308)
Profit on ordinary activities before interest and taxation		5,577	3,685
Interest payable and similar charges		(9,735)	(7,855)
Interest receivable and other income		32	50
Loss on ordinary activities before taxation	3	(4,126)	(4,120)
Tax on loss on ordinary activities	4	(365)	(502)
Loss on ordinary activities after taxation		(4,491)	(4,622)
Equity minority interests		(14)	2
Loss for the financial period		(4,505)	(4,620)

Profit and loss account (unaudited)

For the six months ended 30 September 2014

	<i>Note</i>	YTD 2015 £'000	YTD 2014 £'000
Turnover	3	257,006	196,340
Cost of sales		(141,662)	(101,438)
Gross profit		115,344	94,902
Administrative expenses		(107,419)	(87,809)
Other operating income		893	889
Operating profit		8,818	7,982
EBITDA before exceptional items		36,841	31,017
Depreciation		(8,202)	(6,493)
Amortisation of goodwill		(18,955)	(16,755)
Amortisation of grant income		213	273
Exceptional items		(1,079)	(60)
Operating profit		8,818	7,982
Profit/(loss) on disposal of assets		1,524	(305)
Profit on ordinary activities before interest and taxation		10,342	7,677
Interest payable and similar charges		(19,633)	(38,387)
Interest receivable and other income		45	52
Loss on ordinary activities before taxation	3	(9,246)	(30,658)
Tax on loss on ordinary activities	4	(578)	541
Loss on ordinary activities after taxation		(9,824)	(30,117)
Equity minority interests		(32)	(7)
Loss for the financial period	8	(9,856)	(30,124)

Balance sheet (unaudited)

at 30 September 2014

	<i>Note</i>	Q2 2015 £'000	Q2 2014 £'000
Intangible assets	5	667,659	605,522
Tangible assets		88,009	72,448
Fixed assets		755,668	677,970
Stock		21,630	7,357
Debtors		62,430	37,901
Cash at bank and in hand		23,044	20,806
Current assets		107,104	66,064
Creditors: amounts falling due within one year	6	(86,667)	(65,538)
Net current assets		20,437	526
Creditors: amounts falling due after more than one year	7	(508,610)	(395,125)
Provisions for liabilities and charges		(9,676)	(11,770)
Net assets		257,819	271,601
Capital and reserves			
Share capital	8	410,961	410,961
Profit and loss reserve	8	(153,140)	(139,283)
Minority interest	8	(2)	(77)
Total shareholders' funds	8	257,819	271,601

Cash flow statement (unaudited)

For the quarter ended 30 September 2014

	Q2 2015 £'000	Q2 2014 £'000
Operating profit	4,341	3,993
Amortisation of goodwill	9,678	8,442
Depreciation	4,220	3,317
Amortisation of grant income	(102)	(135)
Decrease/(increase) in stock	977	(143)
Increase in debtors	(1,038)	(2,278)
Increase in creditors	5,107	3,805
Decrease in provisions	(338)	(2,472)
Net cash inflow from operating activities	22,845	14,529
Corporation tax recovered	-	342
Returns on investments and servicing of finance	(13,128)	(7,279)
Capital expenditure	745	(5,040)
Acquisitions and disposals	(23,373)	(9,061)
Net cash outflow before financing	(12,911)	(6,509)
Debt issue costs	(440)	(1,978)
Financing	13,000	5,000
Decrease in cash for the period	(351)	(3,487)
Opening cash	23,395	24,293
Closing cash	23,044	20,806

Cash flow statement (unaudited)

For the six months ended 30 September 2014

	YTD 2015 £'000	YTD 2014 £'000
Operating profit	8,818	7,982
Amortisation of goodwill	18,955	16,755
Depreciation	8,202	6,493
Amortisation of grant income	(213)	(273)
Decrease/(increase) in stock	588	(278)
Increase in debtors	(3,344)	(8,321)
Increase in creditors	8,167	3,870
Decrease in provisions	(871)	(3,549)
Net cash inflow from operating activities	40,302	22,679
Corporation tax recovered	69	246
Returns on investments and servicing of finance	(16,360)	(12,351)
Capital expenditure	(4,328)	(10,138)
Acquisitions and disposals	(94,503)	(59,768)
Net cash outflow before financing	(74,820)	(59,332)
Debt issue costs	(1,322)	(13,300)
Financing	92,250	51,035
Increase/(decrease) in cash for the period	16,108	(21,597)
Opening cash	6,936	42,403
Closing cash	23,044	20,806

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

For the quarter ended 30 September 2014

	Q2 2015	Q2 2014
	£'000	£'000
Decrease in cash for the period	(351)	(3,487)
Drawdown of bank loans	(13,000)	(5,000)
Debt issue costs	-	1,978
Total cash movement in net debt	(13,351)	(6,509)
Other non-cash movements in net debt	(103)	(1,858)
Amortisation of loan arrangement fees	(627)	(607)
Total non-cash movement in net debt	(730)	(2,465)
Total movement in net debt	(14,081)	(8,974)
Net debt brought forward	(465,063)	(360,907)
Net debt carried forward	(479,144)	(369,881)

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

For the six months ended 30 September 2014

	YTD 2015 £'000	YTD 2014 £'000
Increase/(decrease) in cash for the period	16,108	(21,597)
Drawdown of bank loans	(81,500)	(30,307)
Repayment of bank loans	90,500	329,272
Redemption of loan notes	-	50,000
Issue of high yield bonds	(101,250)	(400,000)
Debt issue costs	-	13,300
Total cash movement in net debt	(76,142)	(59,332)
Accrued interest	-	(8,339)
Other non-cash movements in net debt	(103)	397,495
Amortisation of loan arrangement fees	(1,300)	(1,383)
Total non-cash movement in net debt	(1,403)	387,773
Total movement in net debt	(77,545)	328,441
Net debt brought forward	(401,599)	(698,322)
Net debt carried forward	(479,144)	(369,881)

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 2014. The results for the year to date represent the group’s trading from 1 April 2014 to 30 September 2014. Comparative results are provided for the quarter ended 30 September 2013 and the six months ended 30 September 2013 and include the refinancing of the group’s bank debt through the issue of high yield bonds by IDH Finance plc.

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). They 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 2014, both of which are available from our website, www.idhgroup.co.uk.

2 Accounting policies

The condensed consolidated financial statements have been prepared on the basis of the accounting policies set out in the 2014 directors’ report and consolidated financial statements for Turnstone Midco 2 Limited and 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.

Notes

Forming part of the financial statements

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.

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 2015		YTD 2015	
	Turnover £'000	Profit £'000	Turnover £'000	Profit £'000
Dental practices	109,059	17,032	212,993	33,350
Practice services	24,094	2,086	44,013	3,491
Group turnover/EBITDA	133,153	19,118	257,006	36,841
Exceptional items		(981)		(1,079)
Profit on disposal of assets		1,236		1,524
Depreciation and amortisation		(13,796)		(26,944)
Net interest payable		(9,703)		(19,588)
Loss before taxation		(4,126)		(9,246)

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

All activities arose in the United Kingdom.

4 Taxation

	Q1 2015 £'000	Q1 2014 £'000
Analysis of tax (charge)/credit in the period		
<i>Current tax</i>		
Corporation tax	(3)	17
Total current tax (charge)/credit	(3)	17
<i>Deferred tax</i>		
Deferred tax (charge)/credit	(362)	(519)
Adjustment in respect of prior periods	-	-
Effect of changes in tax rates	-	-
Total deferred tax (charge)/credit	(362)	(519)
Tax (charge)/credit on ordinary activities	(365)	(502)

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 2014.

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 21% from 1 April 2014. A further reduction to 20% from 1 April 2015 was substantively enacted in the Finance Act 2013 and the deferred tax asset has been measured accordingly.

Notes

Forming part of the financial statements

	YTD 2015	YTD 2014
	£'000	£'000
Analysis of tax (charge)/credit in the period		
<i>Current tax</i>		
Corporation tax	(3)	17
Total current tax (charge)/credit	(3)	17
<i>Deferred tax</i>		
Deferred tax (charge)/credit	(575)	524
Adjustment in respect of prior periods	-	-
Effect of changes in tax rates	-	-
Total deferred tax (charge)/credit	(575)	524
Tax (charge)/credit on ordinary activities	(578)	541

5 Intangible fixed assets

During the three months ended 30 September 2014, the group acquired 30 dental practices. Practice acquisitions totalling £3.9m and subsidiary acquisitions totalling £19.4m 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 2015	Q2 2014
	£'000	£'000
Trade creditors	18,984	7,985
Other taxation and social security	3,375	1,775
Corporation tax	176	232
Deferred consideration for acquisitions	6,270	5,208
Accruals and deferred income	54,934	47,971
Accrued interest	2,928	2,367
	86,667	65,538

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 2015	Q2 2014
	£'000	£'000
High yield bonds	501,157	400,000
Debt issue costs	(12,072)	(14,313)
High yield bonds net of debt issue costs	489,085	385,687
Super senior revolving credit facility	13,000	5,000
Deferred consideration	6,071	4,105
Accruals and deferred income	454	333
	508,610	395,125

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 30 September 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.

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 2015				Q2 2014			
	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	(148,635)	(16)	262,310	410,961	(134,663)	(75)	276,223
Loss for the financial period	-	(4,505)	14	(4,491)	-	(4,620)	(2)	(4,622)
At end of period	410,961	(153,140)	(2)	257,819	410,961	(139,283)	(77)	271,601

	YTD 2015				YTD 2014			
	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	(143,284)	(34)	267,643	-	(109,159)	(84)	(109,243)
Share capital issued in exchange for loan notes	-	-	-	-	410,961	-	-	410,961
Loss for the financial period	-	(9,856)	32	(9,824)	-	(30,124)	7	(30,117)
At end of period	410,961	(153,140)	(2)	257,819	410,961	(139,283)	(77)	271,601

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