



IDH Finance plc
Quarterly Financial Report
3 months ended 31 December 2013

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Presentation of financial data

This report summarises consolidated financial and operating data derived from the unaudited consolidated financial statements of Turnstone Midco 2 Limited, the parent company of IDH Finance plc. The summary financial information provided has been derived from our records for the nine month accounting period to 31 December 2013 which are maintained in accordance with UK GAAP. The interim results are not necessarily indicative of the results to be expected for the full year.

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

We have presented certain non-GAAP information in the quarterly report. This information includes “EBITDA”, which represents earnings before interest, tax, depreciation, amortisation and one-off exceptional and strategic items. Our management believes EBITDA is meaningful for investors because it provides an analysis of our operating results, profitability and ability to service debt. EBITDA is also used by management to track our business development, establish operational and strategic targets and make important business decisions. EBITDA is the measure commonly used by investors and other interested parties in our industry.

Comparative information has been provided for the quarter ended 31 December 2012. Information presented in this report and described as like-for-like excludes any practices or other operating units trading in the group in the current financial year or the year ended 31 March 2013 but not in both.

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

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Summary highlights

- EBITDA before exceptional items for the three months ended 31 December 2013 (“Q3 FY14”) increased to £17.7m, 22.8% up on the three months to 31 December 2012.
- EBITDA for the financial year to date was £48.7m, 21.0% up on the equivalent period in FY13.
- Q3 turnover was £104.4m, year on year turnover growth, predominantly driven by acquisitions through the year, was 18.2%. Year to date turnover is also 18.2% up on last year.
- Q3 FY14 like-for-like private revenue growth of 12.6%.
- Q3 gross margin percentage up year-on-year: 47.1% to 48.0%.
- Administrative expenses, excluding depreciation, goodwill amortisation and exceptional items, as a percentage of turnover consistent at 31.4%.
- Increase in LTM EBITDA to £64.8m and pro-forma LTM EBITDA to £73.0m.
- 11 practices were acquired during the quarter – total practices increased to 570.
- Operating cash generated of £13.9m.
- Maintenance capital expenditure for the quarter ended 31 December 2013 was £3.8m.
- Normalised cash conversion adjusting for one-off items in working capital and maintenance capital expenditure was 72.7%.
- £8.4m was spent on acquiring practices during the quarter.
- Cash and cash equivalents at 31 December 2013 of £17.3m and net debt was £373.6m.
- Gearing levels are 5.77 times and 5.11 times LTM EBITDA and pro-forma LTM EBITDA respectively.

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

Overview

Integrated Dental Holdings ("IDH") is pleased to announce its results for the quarter ended 31 December 2013.

IDH is the leading provider of dental services in the United Kingdom with a network of 570 dental practices throughout England, Scotland and Wales.

Our core business is the provision of primary care dental services on behalf of the NHS. The majority of our dental practices also provide private dentistry services including general dentistry, hygienist and cosmetic services. A small number of our practices also provide specialist and advanced services such as treatment under sedation, dental implants and orthodontics.

Commentary on results

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

The key performance indicators for the group for the five quarters from 1 July 2012 to 30 September 2013 and for the quarter ended 31 December 2013 are provided below:

Key performance indicators	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014
Turnover (£m)	84.4	88.3	94.4	98.7	97.6	104.4
EBITDA (£m)	13.2	14.4	16.1	15.4	15.6	17.7
LTM EBITDA (£m)	56.2	55.7	56.3	59.0	61.5	64.8
Operating profit (£m)	3.5	3.5	5.4	4.0	4.0	4.2
NHS dentistry services as a percentage of turnover (1)	87.6%	87.4%	87.8%	85.6%	85.0%	84.6%
Private dentistry services as a percentage of turnover	12.4%	12.6%	12.2%	12.7%	13.3%	13.7%
Like-for-like private turnover growth	1.3%	1.6%	3.9%	5.6%	7.6%	12.6%
Gross profit margin %	47.3%	47.1%	47.7%	47.8%	48.9%	48.0%
Administrative expenses as a percentage of turnover	32.2%	31.3%	31.2%	32.7%	33.3%	31.4%
EBITDA margin %	15.6%	16.3%	17.0%	15.6%	16.0%	17.0%
Number of dental practices	506	514	532	550	561	570
Maintenance capital expenditure (£m)	3.3	2.8	3.5	4.6	4.4	3.8
Cash conversion after maintenance capital expenditure % (2)	96.4%	53.3%	73.7%	23.7%	67.6%	60.6%
Proforma EBITDA (£m)			70.2	70.3	71.6	73.0

(1) Other income streams including Dental Buying Group ("dbg") turnover total £1.8m and represent 1.7% of the Group's turnover in Q3 2014.

(2) Normalised cash conversion, after adjusting for one-off items in working capital and maintenance capital expenditure in Q3 FY14 was 72.7%.

In the quarter ended 31 December 2013, we acquired 11 dental practices for a total of 570 dental practices in our estate as at the quarter end. During the financial year we have increased our estate by 38 practices.

Turnover

Group turnover increased by £16.1m, or 18.2%, from £88.3m for the three month period ended 31 December 2012 (“Q3 FY13”) to £104.4m for the three month period to 31 December 2013 (“Q3 FY14”). Turnover for the nine months of the financial year to the end of December has increased by 18.2% over the equivalent period in 2012 to £300.8m.

Turnover derived from dental practices increased by £14.3m from £88.3m to £102.7m. The remaining £1.8m increase was delivered from new services provided outside of the practice including dbg.

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

Dental practice turnover	Q3 2014 £'000	Q3 2013 £'000	Movement £'000
Practices owned as at 1 April 2012	88,150	83,947	4,203
Practice disposals for OFT clearance	-	84	(84)
Practices acquired or opened:			
During the 12 months ended 31 March 2013	8,196	4,273	3,923
During the 9 months ended 31 December 2013	6,304	-	6,304
Total	102,650	88,304	14,346

Turnover of £8.2m was contributed by the 49 practices acquired during the period 1 April 2012 to 31 March 2013 (“FY13 acquisitions”) in the quarter ended 31 December 2013, a £3.9m increase over the £4.3m contributed by the 26 practices acquired or opened in the first nine months of the last financial year. The 41 practices acquired or opened during FY14 (“FY14 acquisitions”) contributed an additional £6.3m and constitutes 6.0% of FY13 Q3 revenue.

NHS revenue

NHS revenue for the quarter ended 31 December 2013 was £88.4m, an increase of £11.2m and 14.6% from £77.2m in Q3 FY13.

This increase was principally due to the impact of acquisitions with £12.1m generated by FY13 and FY14 acquisitions.

Practices owned at 1 April 2012 increased their revenue from NHS contracts from £73.4m to £76.3m due to the 1.5% NHS dentistry contract uplift applied to the contracted Units of Dental Activity (“UDA”) from 1 April 2013 and a catch-up in activity arising from the resolution of the practice management system and network IT issues described in Q2.

Included within the NHS revenue number is £6.5m (Q3 FY13: £5.1m) generated from the delivery of Orthodontic services under contracts with NHS England.

Private revenue

Private revenue for the quarter ended 31 December 2013 was £14.3m, 28.0% higher than £11.1m for the equivalent period in FY13.

Practices owned at 1 April 2012 increased private sales by £1.3m or 12.6% to £11.8m for the quarter with acquired practices generating £2.4m additional private revenue. Private revenue increases have

been generated through the development of additional services for the dentist associates to provide to our patients.

Other revenue

Other revenue of £1.8m has been generated from dbg and other services.

Cost of sales

Gross margin for the quarter ended 31 December 2013 was 48.0% a 0.9% increase from 47.1% in the quarter ended 31 December 2012.

Cost of sales increased by £7.6m and 16.3% from £46.7m to £54.3m for the quarter. The increase in the cost of sales is primarily the result of the increase in revenue in acquisition sites: FY13 and FY14 acquisitions increased cost of sales by £5.2m and dbg and other services added £1.8m.

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

Margins continue to be assisted by a reduced level of locum usage and savings on lab fees resulting from management initiatives to increase cost transparency to the dentist associates.

Administrative expenses

Administrative expenses including goodwill amortisation and depreciation were £46.3m for Q3 FY14, an increase of £7.7m from £38.6m in the three months to 31 December 2012. Administrative expenses excluding goodwill amortisation, depreciation, grant income and exceptional items were £32.8m, an increase of £5.2m from £27.7m in Q3 FY13.

The movement in administrative expenses is primarily due to the practice overheads relating to acquisitions including staff costs, rent, utilities and equipment maintenance and central administrative increases for the additional practices.

The group's largest overhead is the cost of staff working in dental practices, in operational management and at head office. In the quarter ended 31 December 2013, staff costs were £21.9m, an increase of £4.1m from £17.8m in Q3 FY13. This increase is partly due to practice acquisitions (£1.8m) and dbg (£0.8m) but also to pay rate increases introduced at the beginning of the financial year for nurses and practice staff to increase retention rates (approximately £1.5m).

Practice rent expense for the quarter was £2.3m, 2.2% of revenue and an increase of £0.2m from £2.1m in FY13. The increase was due to the growth in the number of practices.

Dental equipment and practice property maintenance costs for Q3 FY14 were £1.9m in line with Q3 FY13 despite the increase in the practice estate.

Other operating income

Other operating income for the three months ended 31 December 2013 was £0.4m and in line with Q3 FY13. 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 £3.3m, 22.8% from Q3 FY13 (£14.4m) to Q3 FY14 (£17.7m).

Exceptional items

Exceptional items in Q3 of £1.7m included the costs associated with changes in senior management including advisory fees.

Year to date performance

In the nine months to December 2013 turnover has increased by 18.2% from £254.5m to £300.8m. This increase has been driven by our acquisition programme over the last two years; however we have also experienced growth in our existing practices and in private revenue. Other services, including dbg, have added £5.2m of revenue with £41.1m of growth from practice services.

Practices acquired during FY13 and FY14 have added £31.1m of revenue to the group results year to date. Practices owned at 1 April 2012 have generated £10.7m through an 8.6% increase in private turnover and a 3.7% improvement in NHS revenue including the 1.5% contract uplift received from the NHS.

Dental practice turnover	YTD 2014 £'000	YTD 2013 £'000	Movement £'000
Practices owned as at 1 April 2012	257,975	247,244	10,731
Practices disposals for OFT clearance	-	760	(760)
Practices acquired or opened:			
During the 12 months ended 31 March 2013	23,543	6,524	17,019
During the 9 months ended 31 December 2013	14,090	-	14,090
Total	295,608	254,528	41,080

EBITDA before exceptional items for the year to date has increased from £40.3m in FY13 to £48.7m in FY14, an increase of 21.0%.

Quarter-on-quarter performance has improved with revenue in Q3 FY14 up £6.8m from Q2 FY14. EBITDA is up £2.1m, 13.3% from Q3 compared to Q2.

Following the fall in NHS revenues experienced in the second half of September with IT issues relating to practice back office management systems, our practice teams and clinicians worked hard to reschedule appointments during October and November in order to recover lost clinical time. The EBITDA effect of this disruption was estimated at between £0.9m and £1.1m however we believe that we have now recovered a proportion of this through additional sessions during Q3.

Pro-forma LTM EBITDA

	£'000
LTM EBITDA before exceptional items at 31 December 2013	64,771
IT conversion adjustment	232
Estimated adjusted EBITDA of acquired dental practices at 31 December 2013	5,076
<u>Adjusted EBITDA for dbg including annualised synergies</u>	<u>2,918</u>
Estimated pro-forma adjusted LTM EBITDA	72,997

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

The IT conversion adjustment represents a one-off decline in UDA delivery performance resulting from the conversion of ADP systems to group IT systems and the subsequent time lost due to installation and training and in the familiarisation period following installation during Q3 and Q4 of FY13. The adjustment has been reduced for Q3 FY14 to reflect only the impact arising in Q4 FY13.

The estimated adjusted EBITDA for acquired dental practices are management estimates for the annual EBITDA of an acquired practice less the actual results consolidated in LTM EBITDA from the date of acquisition. For dbg the EBITDA adjustments are the full year effect of the synergies described in the Offering Memorandum. Since the acquisition of dbg, management have started to introduce the plans to deliver these synergies and remain on track to deliver the full year effect of such initiatives during the year ended March 2015.

Interest

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

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

The remaining £1.6m relates to amortisation of arrangement fees, interest rate swap charges and interest charges following a drawdown from the Super Senior Revolving Credit Facility in Q2.

Debt and liquidity

At 31 December 2013, the net debt was £373.6m, compared to £369.9m at 30 September 2013. This movement is primarily due to a decrease in cash balances during the quarter through the use of free cash for practice acquisitions. The movement from 31 December 2012 is primarily due to non-cash movements including the capitalisation of £411.0m of shareholder loans through the issue of share capital by Turnstone Midco 2 Limited.

Net cash flow for the quarter was an outflow of £3.5m including £8.4m for acquisitions, £5.0m for capital expenditure, including the refurbishment of acquisition sites and £2.6m for the servicing of finance.

Working capital movements

Net cash inflow from operating activities increased from £10.3m in Q3 FY13 to £13.9m in Q3 FY14 and the ratio of EBITDA to operating cash flow increased from 71.7% to 78.4%.

The cash outflow arising from the utilisation of fair value accruals created as part of the acquisitions of ADP and IDH by Turnstone Midco 2 Limited included £1.2m for practice upgrades to maintain compliance with CQC and Health and Safety regulations.

Capital expenditure

Capital expenditure for Q3 FY14 was £5.0m including acquisition refurbishments of £1.2m. The remaining capital expenditure is referred to as “maintenance” capital expenditure and was £3.8m for the quarter.

The maintenance capital expenditure for the quarter includes a number of infrastructure projects and relocation costs. The £3.8m cash flow for the quarter includes £0.4m for the merger of practices in Bristol and Coventry, £1.1m for the refurbishment of nine practices, £0.2m for the roll out of rotary endodontic equipment to appropriately trained dentists and £0.3m in the first stage of the project to replace old maintenance-intensive dental chairs.

Cash conversion

Cash conversion is measured as the ratio of EBITDA to operating cash flow less maintenance capital expenditure and for the quarter was 60.6% compared to 53.3% in the corresponding quarter in FY13.

Cash conversion was reduced by the working capital outflows and the infrastructure and refurbishment capital expenditure projects discussed above. After taking these items into account, cash conversion would increase to 72.7% for the quarter.

Acquisitions

Acquisitions capital expenditure in the quarter was £8.4m and was focussed on individual practice acquisitions.

Risk factors

There have been no material changes in IDH's overall opportunity and risk position when compared to the Risk factors set out in the IDH Finance plc Offering Memorandum dated 22 May 2013 and the statutory accounts for Turnstone Equityco 1 Limited for the year ended 31 March 2013.

Turnstone Midco 2 Limited

Condensed consolidated interim financial statements – Unaudited

Q3, 2014 – 3 and 9 month periods ended 31 December 2013

Profit and loss account (unaudited)

For the quarter ended 31 December 2013

	<i>Note</i>	Q3 2014 £'000	Q3 2013 £'000
Turnover	3	104,437	88,322
Cost of sales		(54,309)	(46,690)
Gross profit		50,128	41,632
Administrative expenses		(46,323)	(38,577)
Other operating income		407	450
Operating profit		4,212	3,505
EBITDA before exceptional items		17,705	14,422
Depreciation		(3,362)	(2,971)
Amortisation of goodwill		(8,537)	(7,460)
Amortisation of grant income		112	160
Exceptional items		(1,706)	(646)
Operating profit		4,212	3,505
Profit/(loss) on disposal of assets		24	(3)
Profit on ordinary activities before interest and taxation		4,236	3,502
Interest payable and similar charges		(7,947)	(17,872)
Interest receivable and other income		8	9
Loss on ordinary activities before taxation	3	(3,703)	(14,361)
Tax on loss on ordinary activities	4	31	(156)
Loss on ordinary activities after taxation		(3,672)	(14,517)
Equity minority interests		(18)	4
Loss for the financial period		(3,690)	(14,513)

Profit and loss account (unaudited)

For the nine months ended 31 December 2013

	<i>Note</i>	YTD 2014 £'000	YTD 2013 £'000
Turnover	3	300,777	254,546
Cost of sales		(155,747)	(134,158)
Gross profit		145,030	120,388
Administrative expenses		(134,132)	(112,547)
Other operating income		1,296	1,297
Operating profit		12,194	9,138
EBITDA before exceptional items		48,722	40,282
Depreciation		(9,855)	(8,849)
Amortisation of goodwill		(25,292)	(21,958)
Amortisation of grant income		385	487
Exceptional items		(1,766)	(824)
Operating profit		12,194	9,138
Loss on disposal of assets		(281)	(702)
Profit on ordinary activities before interest and taxation		11,913	8,436
Interest payable and similar charges		(46,334)	(52,509)
Interest receivable and other income		60	29
Loss on ordinary activities before taxation	3	(34,361)	(44,044)
Tax on loss on ordinary activities	4	572	(627)
Loss on ordinary activities after taxation		(33,789)	(44,671)
Equity minority interests		(25)	46
Loss for the financial period	8	(33,814)	(44,625)

Balance sheet (unaudited)

at 31 December 2013

	<i>Note</i>	Q3 2014 £'000	Q3 2013 £'000
Intangible assets	5	605,524	543,972
Tangible assets		75,022	64,035
Fixed assets		680,546	608,007
Stock		7,394	5,778
Debtors		37,479	32,457
Cash at bank and in hand		17,292	16,346
Current assets		62,165	54,581
Creditors: amounts falling due within one year	6	(67,983)	(64,378)
Net current liabilities		(5,818)	(9,797)
Creditors: amounts falling due after more than one year	7	(396,323)	(678,241)
Provisions for liabilities and charges		(10,476)	(16,403)
Net assets/(liabilities)		267,929	(96,434)
Capital and reserves			
Share capital	8	410,961	-
Profit and loss reserve	8	(142,973)	(96,384)
Minority interest	8	(59)	(50)
Total shareholders' funds/(deficit)	8	267,929	(96,434)

Cash flow statement (unaudited)

For the quarter ended 31 December 2013

	Q3 2014 £'000	Q3 2013 £'000
Operating profit	4,212	3,505
Amortisation of goodwill	8,537	7,460
Depreciation	3,362	2,971
Amortisation of grant income	(112)	(160)
Increase in stock	(110)	(21)
Decrease/(increase) in debtors	931	(3,609)
(Decrease)/increase in creditors	(1,551)	1,005
Decrease in provisions	(1,395)	(802)
Net cash inflow from operating activities	13,874	10,349
Corporation tax paid	-	(168)
Returns on investments and servicing of finance	(2,576)	(4,827)
Capital expenditure	(5,021)	(3,135)
Acquisitions and disposals	(8,409)	(9,801)
Net cash outflow before financing	(2,132)	(7,582)
Debt issue costs	(1,382)	-
Financing	-	8,460
(Decrease)/increase in cash for the period	(3,514)	878
Opening cash	20,806	15,468
Closing cash	17,292	16,346

Cash flow statement (unaudited)

For the nine months ended 31 December 2013

	YTD 2014 £'000	YTD 2013 £'000
Operating profit	12,194	9,138
Amortisation of goodwill	25,292	21,958
Depreciation	9,855	8,849
Amortisation of grant income	(385)	(487)
Increase in stock	(388)	(44)
Increase in debtors	(7,390)	(5,980)
Increase in creditors	2,319	6,560
Decrease in provisions	(4,944)	(1,784)
Net cash inflow from operating activities	36,553	38,210
Corporation tax recovered/(paid)	246	(168)
Returns on investments and servicing of finance	(14,927)	(14,594)
Capital expenditure	(15,159)	(9,908)
Acquisitions and disposals	(68,177)	(25,430)
Net cash outflow before financing	(61,464)	(11,890)
Debt issue costs	(14,682)	-
Financing	51,035	9,279
Decrease in cash for the period	(25,111)	(2,611)
Opening cash	42,403	18,957
Closing cash	17,292	16,346

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

For the quarter ended 31 December 2013

	Q3 2014	Q3 2013
	£'000	£'000
(Decrease)/increase in cash for the period	(3,514)	878
Issue of loan notes	-	(8,460)
Debt issue costs	1,382	-
Total cash movement in net debt	(2,132)	(7,582)
Accrued interest	-	(12,041)
Non-cash movements in net debt from re-financing	(980)	-
Amortisation of loan arrangement fees	(627)	(864)
Total non-cash movement in net debt	(1,607)	(12,905)
Total movement in net debt	(3,739)	(20,487)
Net debt brought forward	(369,881)	(650,878)
Net debt carried forward	(373,620)	(671,365)

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

For the nine months ended 31 December 2013

	YTD 2014	YTD 2013
	£'000	£'000
Decrease in cash for the period	(25,111)	(2,611)
Drawdown of bank loans	(30,307)	(13,098)
Repayment of bank loans	329,272	12,279
Redemption/(issue) of loan notes	50,000	(8,460)
Issue of high yield bonds	(400,000)	-
Debt issue costs	14,682	-
Total cash movement in net debt	(61,464)	(11,890)
Accrued interest	(8,339)	(34,971)
Non-cash movements in net debt from re-financing	396,515	-
Amortisation of loan arrangement fees	(2,010)	(2,574)
Total non-cash movement in net debt	386,166	(37,545)
Total movement in net debt	324,702	(49,435)
Net debt brought forward	(698,322)	(621,930)
Net debt carried forward	(373,620)	(671,365)

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 31 December 2013. The results for the year-to-date represent the group’s trading from 1 April 2013 to 31 December 2013 and include the refinancing of the group’s bank debt through the issue of high yield bonds by IDH Finance plc. Comparative results are provided for the quarter ended 31 December 2012.

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 for the group, Turnstone Equityco 1 Limited for the year ended 31 March 2013 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 2013 directors’ report and consolidated financial statements for Turnstone Equityco 1 Limited.

Turnover

Turnover represents the income received in the ordinary course of business for dentistry goods or services provided to the extent that the group has obtained the right to consideration. Turnover derived from NHS contracts in England and Wales is recognised on the volume of dental activity delivered in the financial year. Turnover from all private dental work and NHS patients in Scotland is recognised on the completion of each piece of treatment carried out, with the exception of orthodontic treatment, which is recognised based on the stage of completion reached during the course of treatment.

Goodwill

Purchased goodwill (representing the excess of the fair value of the consideration and associated costs over the fair value of the separable net assets acquired) arising on consolidation in respect of acquisitions is capitalised. Positive goodwill is amortised to nil by equal annual instalments over its estimated useful life, which is 20 years, being the period over which the group expects to benefit from the assets acquired. The carrying value of goodwill is evaluated when there is an indicator of impairment. When it is determined that the carrying value exceeds the recoverable amount, the excess is written off to the profit and loss account.

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

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

	Q3 2014		YTD 2014	
	Turnover £'000	Profit £'000	Turnover £'000	Profit £'000
Operation of dental practices	102,650	17,563	295,608	48,005
Other services	1,787	142	5,169	717
Group turnover/EBITDA	104,437	17,705	300,777	48,722
Exceptional items		(1,706)		(1,766)
Profit/(loss) on disposal of assets		24		(281)
Depreciation and amortisation		(11,787)		(34,762)
Net interest payable		(7,939)		(46,274)
Loss before taxation		(3,703)		(34,361)

All activities arose in the United Kingdom.

Exceptional items in Q3 of £1.7m included the costs associated with changes in senior management including advisory fees.

4 Taxation

	Q3 2014 £'000	Q3 2013 £'000
Analysis of tax credit/(charge) in the period		
<i>Current tax</i>		
Corporation tax	(19)	(732)
Total current tax charge	(19)	(732)
<i>Deferred tax</i>		
Deferred tax credit	50	576
Adjustment in respect of prior periods	-	-
Effect of changes in tax rates	-	-
Total deferred tax credit	50	576
Tax credit/(charge) on ordinary activities	31	(156)

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 31 December 2013. The corporation tax charge recognised in the quarter arises from a historic trading liability in an acquired subsidiary.

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

The main rate of Corporation Tax has been reduced to 23% from 1 April 2013. The budget announced on 20 March 2013, and substantively enacted on 1 July 2013, included provisions to reduce the main rate of Corporation Tax to 21% by 1 April 2014 and 20% by 1 April 2015. This rate reduction was applied to the timing of the reversal of deferred tax assets in Q2 FY14.

Notes

Forming part of the financial statements

4 Taxation (continued)

	YTD 2014	YTD 2013
	£'000	£'000
Analysis of tax credit/(charge) in the period		
<i>Current tax</i>		
Corporation tax	(2)	(2,196)
Total current tax charge	(2)	(2,196)
<i>Deferred tax</i>		
Deferred tax credit	1,585	1,728
Adjustment in respect of prior periods	-	(159)
Effect of changes in tax rates	(1,011)	-
Total deferred tax credit	574	1,569
Tax credit/(charge) on ordinary activities	572	(627)

5 Intangible fixed assets

During the three months ended 31 December 2013, the group acquired 10 dental practices. Practice acquisitions totalling £7.2m and subsidiary acquisitions totalling £1.0m were made in the period.

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

6 Creditors: amounts falling due within one year

	Q3 2014	Q3 2013
	£'000	£'000
Bank loans	-	10,726
Trade creditors	9,904	9,357
Other taxation and social security	1,929	1,210
Corporation tax	302	2,057
Deferred consideration for acquisitions	4,670	905
Accruals and deferred income	44,154	39,263
Accrued interest	7,024	860
	67,983	64,378

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

	Q3 2014	Q3 2013
	£'000	£'000
High yield bonds	400,000	-
Debt issue costs	(14,088)	-
High yield bonds net of debt issue costs	385,912	-
Bank loans	-	242,266
Shareholder loans	-	434,719
Super senior revolving credit facility	5,000	-
Deferred consideration	5,026	517
Accruals and deferred income	385	739
	396,323	678,241

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

- £200m 6% Senior Secured Fixed Rate Notes due to mature on 1 December 2018;
- £125m Senior Secured Floating Rate Notes due to mature on 1 December 2018. The notes are set at a floating rate of GBP LIBOR plus 5% each quarter.
- £75m 8.5% Second Lien Notes due to mature on 1 June 2019.

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

The shareholder loan notes outstanding in Q3 2013 were issued by the parent company, Turnstone Midco 1 Limited as part of the acquisition of the IDH and ADP groups in 2011 and as additional funding for acquisitions in the intervening period. The liability at 29 May 2013 was settled through the issue of share capital in Turnstone Midco 2 Limited, excluding £50m which remained outstanding.

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

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

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

Notes

Forming part of the financial statements

8 Movements in shareholders' funds

	Q3 2014				Q3 2013			
	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	(139,283)	(77)	271,601	-	(81,871)	(46)	(81,917)
Loss for the financial period	-	(3,690)	18	(3,672)	-	(14,513)	(4)	(14,517)
At end of period	410,961	(142,973)	(59)	267,929	-	(96,384)	(50)	(96,434)

	YTD 2014				YTD 2013			
	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	-	(109,159)	(84)	(109,243)	-	(51,759)	(4)	(51,763)
Share capital issued in exchange for loan notes	410,961	-	-	410,961	-	-	-	-
Loss for the financial period	-	(33,814)	25	(33,789)	-	(44,625)	(46)	(44,671)
At end of period	410,961	(142,973)	(59)	267,929	-	(96,384)	(50)	(96,434)

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