GRANT SAMUEL

Abano Healthcare Group Limited

Independent Valuation

November 2013

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Glossary

Term	Definition
Abano	Abano Healthcare Group Limited
Archer	Archer Capital Pty Limited
Bay International	Bay International Limited
CDDS	Chronic Disease Dental Scheme
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
Grant Samuel	Grant Samuel & Associates Limited
HIL	Healthcare Industry Limited
Hutson	Mr Peter Hutson
IFRS	International Financial Reporting Standards
NZX	New Zealand Stock Exchange
Reeves	Mr James Reeves
VWAP	Volume weighted average share price

1. Background

Abano Healthcare Group Limited (**Abano**) is an investor and operator in the private healthcare market in New Zealand, Australia and South East Asia. The company operates businesses in four sectors: dental, diagnostics, audiology and rehabilitation. Abano is a New Zealand Stock Exchange (**NZX**) listed company.

On 7 August 2013 Abano advised that it had received and rejected a non-binding indicative proposal from an unnamed suitor, which involved the potential acquisition of 100% of the shares in Abano. On 16 September 2013 Abano advised the NZX that the previously unnamed suitor was Australian private equity firm Archer Capital Pty Ltd (**Archer**) in conjunction with Mr Peter Hutson, whose associated interests hold an approximate 14% shareholding in Abano, and Mr James Reeves, who has an approximately 5% shareholding. The Archer/Hutson/Reeves consortium reissued its indicative proposal on 13 September 2013, incorporating an indicative price range of $6.97 - $7.14 per Abano share. No formal notice of intention to make an offer (which under the Takeovers Code must be made for a formal offer to be launched) has been made to date, and the Directors of Abano (excluding Hutson) have continued to reject the unsolicited approach. Peter Hutson resigned as a Director of Abano on 19 September 2013.

Under the Archer/Hutson/Reeves non-binding indicative proposal to acquire 100% of Abano, a "*nominal value*" was ascribed to Abano's audiology business. Under that proposal and if the proposed transaction was successful, the Hutson interests would acquire Abano's share of the audiology business at this nominal value from the Archer/Hutson/Reeves consortium. On 8 October 2013 Abano requested Peter Hutson and his interests to name the price at which they would either sell their 50% holding in Bay International Limited (**Bay International**) to Abano or buy Abano's 50% holding in Bay International. No response has been received.

In anticipation of a possible takeover, Abano has engaged Grant Samuel & Associates (**Grant Samuel**) to be available as an independent expert and to commence preliminary work for the purposes of preparing the Independent Adviser's Report required under the framework of the Takeovers Code, if and when an offer was made. As part of that process, Grant Samuel undertook an independent valuation of Abano, which it has provided to the Board of Abano.

2. Scope of the Report

2.1 Purpose of the Report

The Independent Directors of Abano have engaged Grant Samuel to prepare an Independent Valuation of Abano. This Independent Valuation is not an Independent Adviser's Report for the purposes of the Takeovers Code and has not been prepared on that basis.

2.2 Approach to Valuation

Grant Samuel has estimated the value range of Abano with reference to its full underlying value. In Grant Samuel's opinion the price to be paid under a full takeover should reflect the full underlying value of the company. The support for this opinion is two fold:

- the Takeovers Code's compulsory acquisition provisions apply when the threshold of 90% of voting rights has been reached. In this instance, the Takeovers Code seeks to avoid issues of premiums or discounts for minority holdings by providing that a class of shares is to be valued as a whole with each share then being valued on a pro rata basis. In other words, a minority shareholder is to receive its share of the full underlying value. Grant Samuel believes that the appropriate test for fairness under a full or partial takeover offer where the offeror will gain control is the full underlying value, prorated across all shares. The rationale for this opinion is that it would be inconsistent for one group of minority shareholders, those selling under compulsory acquisition, to receive a different price under the same offer from those who accepted the offer earlier; and
- under the Takeovers Code the acquisition of more than 20% of voting rights in a "code" company can only be made under an offer to all shareholders unless the shareholders otherwise give approval. As a result, a controlling shareholding (generally accepted to be no less than 40% of the voting rights) cannot be transferred without the acquirer making an offer on the same terms and conditions to all shareholders (unless shareholders consent). Prior to the introduction of the Takeovers Code some market commentators held the view that where a major shareholder had a controlling shareholding, any control premium attached only to that shareholding. One of the core foundations of the Takeovers Code is that all shareholders be treated equally. In this context, any control premium is now available to all shareholders under a takeover offer (in a scenario where an offeror will gain control), regardless of the size of their shareholding or the size of the offeror's shareholding at the time the offer is made.

Accordingly, Grant Samuel is of the opinion that not only because shares acquired under a compulsory acquisition scenario will receive a price equivalent to full underlying value, but because the control premium is now available to all shareholders, the share price under either a full or partial takeover offer where the offeror will gain control should be within or exceed the prorated full underlying valuation range of the company.

Abano has been valued at fair market value, which is defined as the estimated price that could be realised in an open market over a reasonable period of time assuming that potential buyers have full information.

Grant Samuel's opinion is to be considered as a whole. Selecting portions of the analyses or factors considered by it, without considering all the factors and analyses together, could create a misleading view of the process underlying the opinion. The preparation of a valuation opinion is a complex process and is not necessarily susceptible to partial analysis or summary. For the avoidance of doubt, appendices A to E form part of this report.

3. Overview of Abano

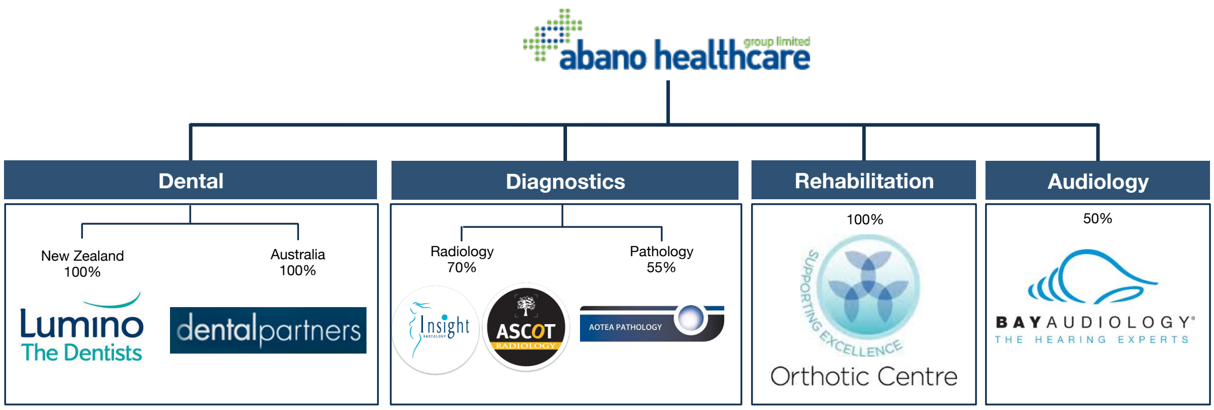
3.1 Background

Abano is an investor in and operator of healthcare and medical services businesses in New Zealand, Australia and South East Asia. The business was established in its current form in 1999. Since that time it has evolved into a multi-disciplinary group with services in dental, audiology, diagnostics and rehabilitation. Abano has adopted a strategic approach to acquiring, developing and selling businesses. The Abano strategy has five key elements:

- partner and co-invest with the founders and managers of successful healthcare businesses;
- identify opportunities, add value to these businesses through innovation, use of technology, and research and development;
- focus on healthcare sectors predominantly funded by private (as opposed to Government) payment in scalable and sustainable markets;
- reduce volatility by diversifying across markets, income streams and geographical regions; and
- recruit and retain the best employees and partners.

Today Abano operates across four segments of the healthcare market:

Abano Group Segments and Businesses



An overview of Abano's businesses in each segment is outlined below:

- **Dental**, comprising 79 '*Lumino The Dentists*' branded dental practices in New Zealand and 68 dental practices in Australia operating under the '*Dental Partners'* banner. Both businesses are 100% owned by Abano. The dental division is actively acquiring further dental practices on both sides of the Tasman in what are highly fragmented markets;
- **Diagnostics**, comprising a 55% shareholding in Aotea Pathology and a 70% shareholding in Insight + Ascot Radiology. Aotea provides community pathology services to several DHB's in the wider Wellington region under contract currently extended to 31 October 2015. Insight + Ascot Radiology operates from five locations in Auckland. Abano has made a significant investment in new clinics and equipment in its Diagnostics business during the past five years;
- **Audiology**, comprising a 50% shareholding in Bay International. Bay International has 33 stores and non-retail testing locations in Australia, and 20 stores in Asia. The current scale of the business is too small for the size of the overhead structure and for the business to generate appropriate returns it will need to open more stores. The other 50% of Bay International is owned by interests associated with Mr Peter Hutson, one of the original founders of Bay Audiology; and
- **Rehabilitation**, comprising a 100% shareholding in the Orthotic Centre, which provides clinical orthotic services from six centres throughout New Zealand. Revenues are predominantly funded by ACC and DHB's, the latter under fixed term contracts.

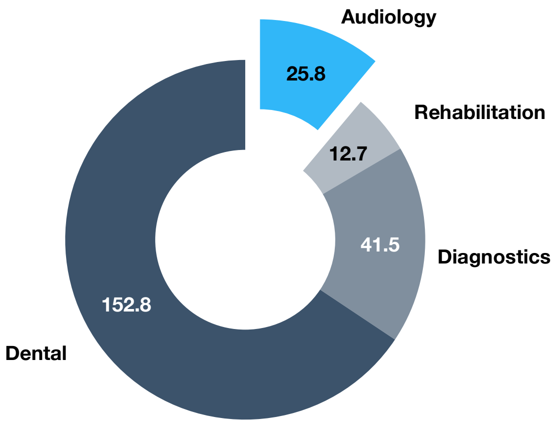
Abano's segment results for the financial year ended 31 May 2013 are summarised below:

Abano Segment Results ($ millions)

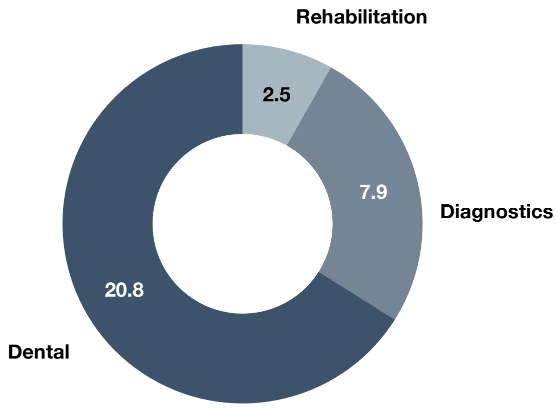
Year end 31 May 2013	Dental	Diagnostics	Rehabilitation	Corporate	Reported	Audiology[1]
Net revenues	152.8	41.5	12.7	-	207.0	25.8
Underlying EBITDA[2]	20.8	7.9	2.5	(2.6)	28.6	(7.7)
EBITDA margin	*13.6%*	*19.0%*	*19.7%*	-	*13.8%*	*(29.8%)*
Underlying EBIT[3]	14.3	5.3	2.4	(2.7)	19.3	(10.6)

The Group's dental sector operations are the largest segment, accounting for approximately 74% of net revenue and 73% of reported underlying EBITDA for the financial year ended 31 May 2013. Abano's revenue and EBITDA by segment for the financial year ended 31 May 2013 is set out below:

FY2013 Net Revenues by Segment (NZ$ millions)



FY2013 EBITDA by Segment (NZ$ millions)[4]



Abano employs approximately 2,000 people approximately 250 locations, as summarised below:

Other Segment Information

As at 1 Nov 2013	Dental	Diagnostics	Rehabilitation	Corporate	Audiology	Total
Number of locations	147	24	6	1	73[5]	251
Number of employees	1,433	310	67	7	219	2,036

[1] Abano's 50% investment in Bay International is accounted for under the equity method.

[2] Excludes acquisition and divestment costs.

[3] Excludes acquisition and divestment costs.

[4] Bay International business generated underlying EBITDA loss of $7.7 million.

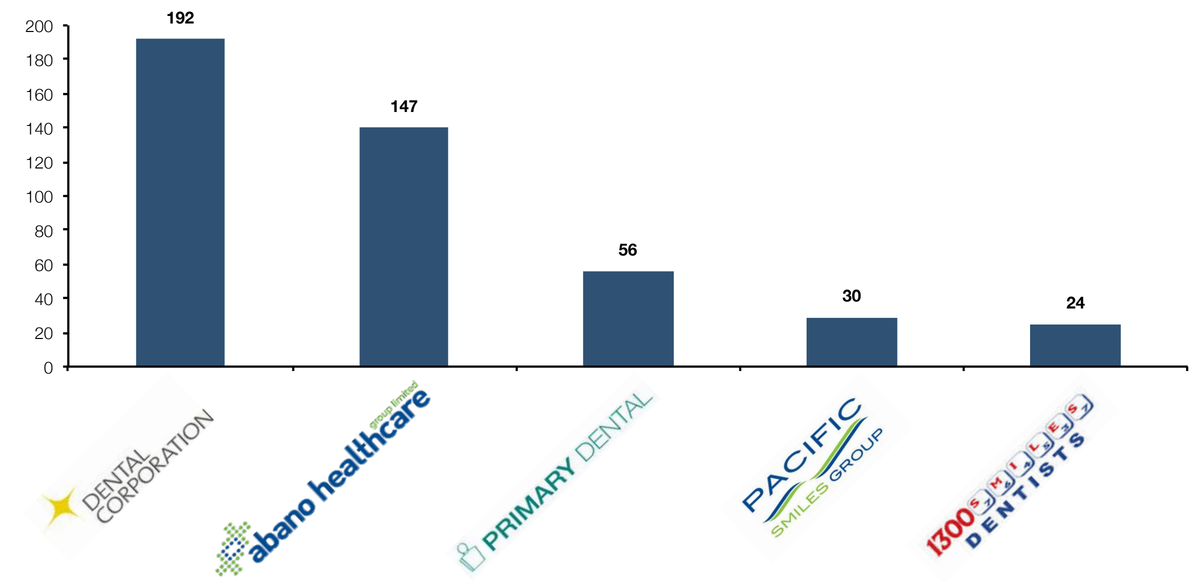
[5] Includes 20 non-retail testing locations.

3.2 Dental

3.2.1 Market

The demand for dental services in Australasia continues to be strong, assisted by the ageing and growth of the population, the trend for people to retain their natural teeth, and increasing demand for private health insurance. There are estimated to be approximately 10,500 dental practices in Australasia. The vast majority of these are private practices, with less than 5% owned by corporate entities, often referred to as corporate consolidators because of the methodology of acquiring and 'rolling up' or rebranding private practices. Abano is the largest corporate consolidator in New Zealand and the second largest in Australia. The relative size of the five largest corporate consolidators in Australasia, as measured by number of practices, is depicted graphically below:

Trans-Tasman 5 Largest Dental Consolidators as at November 2013 (Number of Practices)



Australia

The Australian dental services market[6] employs approximately 57,000 people, comprising 20,000 dental practitioners and 37,000 support personnel. The industry is considered to still be in a growth phase, with revenue forecast to grow by approximately 4.2% p.a. to exceed A$10 billion p.a. by 2019. A summary of the selected key trends in the Australasian dental industry are shown in the table below:

Australian Dental Services Market Key Statistics

				Growth (% p.a.)	
	2008/09	**2013/14**	**2018/19**	**09 to 14**	**14 to 19**
Revenue (A$ billion)	6.5	8.2	10.1	4.8%	4.2%
Establishments (#000s)	9.9	12.4	13.3	4.5%	1.5%
Employees (#000s)	43.2	56.6	63.3	5.5%	2.3%

The vast majority of dental practices in Australasia are small and stand-alone. The industry is highly fragmented with no competitor holding a market share that is considered large enough to dictate industry behaviour. The largest four operators, including public sector operators, account for less than 15% of industry revenue. The largest market participants include private consolidators such as BUPA which has 4% market share, and public providers such as the Queensland and New South Wales governments, which each have an estimated market share of approximately 3%.

The Australian dentistry market is highly fragmented with approximately 10,500 dental practices. Competition in Australia comes from four companies, of which Dental Corp is currently the only other active consolidator.

[6] Information on the Australian dental industry has been sourced from EBIS World, Dental Services in Australia, October 2013 and Dental Practitioner Registrant Data, June 2013.

- **Dental Corp**. An aggressive consolidator with approximately 192 Australian practices. Dental Corp was acquired by UK based BUPA. It has a New Zealand subsidiary company with approximately 20 practices, which is the only corporate dentistry competitor to Lumino in New Zealand;
- **1300 Smiles**. This is the only listed dental consolidator with 24 practices in Australia. It is understood to have an autocratic management style, which is producing strong results;
- **Pacific Smiles Group**. Comprises approximately 30 dental practices and which also has not acquired any practices in recent years; and
- **Lifetime Smiles/ National Dental Care**. A new competitor funded by private equity fund Crescent Capital. Crescent Capital acquired Bay Audiology in New Zealand from Abano in November 2009. It currently has approximately 13 practices.

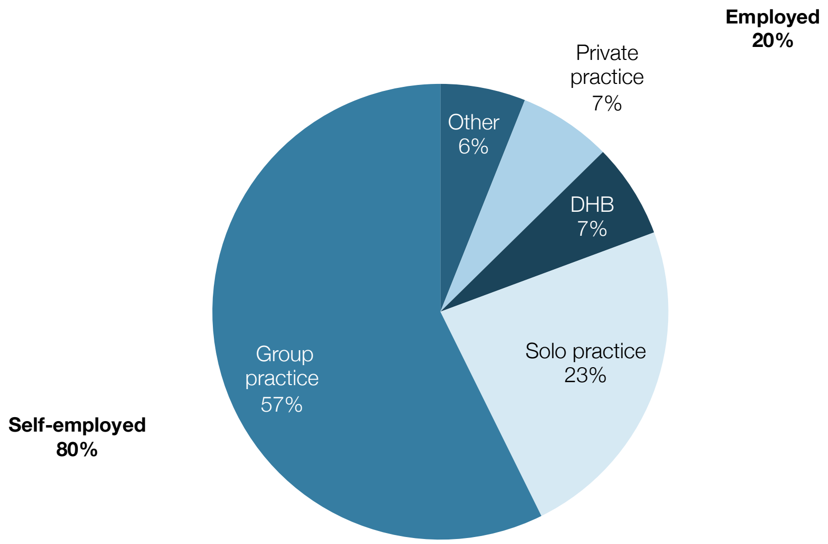
Over the next five years, it is expected that more Australian dental practices will join a group. Group consolidators offer the advantage of standardising systems and back office services, enabling dentists to focus more on clinical activities and growing the practice. It is also expected that some independent dental practices will move towards clinic-type arrangements, which would allow costs, such as administration and advertising, to be spread over a larger revenue base.

New Zealand

The New Zealand dental services market employs approximately 2,600 dentists with about 96% of these belonging to the New Zealand Dental Association.[7] The majority of New Zealanders are treated by private dental practitioners, who typically pay for their treatment at their own expense. Free basic dental care is available for all New Zealand children up to 18 years of age.

The dental market in New Zealand is worth approximately $650 million in revenue p.a.[8] Approximately 80% of dentists in New Zealand are self-employed with the majority of these working in a group practice. The diagram below provides an overview of dentists by type of practice:

New Zealand General Dentists by Type of Practice[9]



[7] Source: New Zealand Dental Association.

[8] Source: Abano.

[9] Source: Dental Council Workforce Analysis 2009. Published in April 2011 for the Dental Council.

3.2.2 Abano Dental

Abano's dental segment comprises 'Lumino The Dentists' in New Zealand and 'Dental Partners' in Australia.

Lumino The Dentists

Abano entered the dental market through the acquisition of Geddes Dental in 2002. The brand was relaunched as "*Lumino The Dentists*" in 2005. At the end of November 2013, Lumino comprised 79 dental practices with 631 employees including 195 clinicians. Lumino focuses on servicing patients in the private sector, with less than 5% of its revenue coming from central Government. Lumino has gained a high level of acceptance from the dental sector and is now seen as an attractive alternative to the traditional private ownership model.

In FY2012, Lumino embarked on a successful nationwide TV marketing campaign, signalling it had started to reach critical mass. This campaign was recently repeated with the inclusion of an interest free short-term offer using the Fisher & Paykel Finance Q Card, which has proved to be very successful. Lumino has set itself a goal of a 25% market share within 5 years. It has exhibited strong growth through acquisition and this target is considered a realistic objective. Abano has been successful in acquiring individual dental practices at attractive multiples relative to the valuation multiples applicable to corporate dentistry businesses. The acquisition costs under International Financial Reporting Standards (**IFRS**) require that these costs be written off against current year income, distorting the reported segment results. As there is an immediate value uplift on completion of the acquisitions, in Grant Samuel's opinion, it would be appropriate that the costs of acquisition be capitalised along with the price paid for the businesses.

A key feature of the acquisition of dental practices is that a part of the purchase price is dependent on achieving agreed earnings targets over the ensuing three years ensuring a strong commitment from the practitioners whose businesses have been acquired and provides some protection for Abano against paying high prices. Abano's dental businesses in both Australia and New Zealand are both now of sufficient scale to be able to achieve material purchasing benefits for both consumable supplies and capital equipment.

Dental Partners

In June 2008, Abano entered the Australian dental market through the acquisition of a 70% shareholding in Dental Partners, with the intention of repeating the success achieved with Lumino in the New Zealand market. Abano acquired 100% of the shares in Dental Partners in June 2012. As at the end of November 2013, Dental Partners comprised 68 dental locations, with 802 employees including 213 clinicians. In common with all of the Abano's businesses, Dental Partners is a fully standalone business with its own head office.

3.2.3 Financial Performance

The financial performance of Dental for the financial years ended 31 May 2012 and 2013, together with the forecast for the financial year ending 31 May 2014 is outlined below:

Dental Segment Financial Performance ($ millions)

Financial year end 31 May	2012	2013	2014F[10]
Segment revenue	143.5	152.8	159.5
Segment EBITDA[11]	18.5	20.8	22.9
EBITDA margin	*12.9%*	*13.6%*	*14.3%*

[10] The forecasts for the year ending 31 May 2014 contained in this valuation have been compiled by Grant Samuel from management forecasts for the six months to 30 November 2013 and management's outlook for the balance of the financial year.

[11] Excludes acquisition and divestment costs.

3.3 Diagnostic

3.3.1 Market

Pathology

Almost 100% of the funding for pathology services in New Zealand since 2003 comes from DHB's. The change to DHB funding has resulted in contract revisions and competitive tendering leading to the consolidation of a number of laboratories. The change from the incumbent in Auckland to Lab Tests was followed by a period of considerable disruption and was regarded as a poorly executed process. The process adopted in Auckland has reduced the attractiveness of pathology in New Zealand both from an employment perspective and an investment perspective.

Radiology

The Auckland radiology market is very competitive. Radiology is predominantly privately funded and has strong growth opportunities as the technology continues to be developed, providing new and non-invasive diagnostic procedures.

Pacific Radiology Group is the largest radiology group in New Zealand comprising Christchurch Radiology, Hutt Radiology, Nelson Radiology, Otago Radiology and Pacific Radiology (Wellington). It does not have a presence in the Auckland market which has three major participants - Auckland Radiology Group, Mercy Radiology and Insight + Ascot Radiology owned by Abano.

3.3.2 Abano Diagnostic

Abano's diagnostics segment comprises a 55% shareholding in Aotea Pathology and a 70% shareholding in Insight & Ascot Radiology.

Aotea Pathology

Abano has a 55% shareholding in Aotea Pathology in a joint venture with the global diagnostics services company Sonic Healthcare. Aotea provides community pathology services under contract to the Wellington, Hutt Valley and Kapiti regions for the Hutt and Capital and Coast DHB's. The fixed term contract expires in October 2015. Understandably, Aotea is keen to renegotiate another long-term contract, however, as was experienced in Auckland the DHB's do not always consider the commercial consequences of fixed term contracts involving a significant investment in equipment and a highly skilled workforce. In Grant Samuel's opinion, the contracts should be on an evergreen basis, which would enable the owners to invest in people, processes and technology with a degree of certainty.

Aotea is a profitable business where staff costs comprise approximately 45% of revenue. Given the critical nature of the service provided there is little, if any, scope for cost reduction in the face of a reduced payment per test. If Aotea was forced to accept new less attractive terms, there is a strong possibility that Aotea's profitability will decline.

Insight + Ascot Radiology

Insight + Ascot Radiology is 70% owned by Abano with the balance owned by radiologist partners. It operates from five locations in Auckland, providing breast imaging, bone density scans, interventional radiology, MRI, PET CT, CT, ultrasound and X-ray. Abano has invested $17 million in the business over the last five years, establishing new clinics and purchasing the latest equipment. The market for radiology services is very competitive and the latest investments in a PET CT scanner and a full suite of radiology equipment at the Millennium Institute Clinic are both in a start up phase and producing sub-optimal returns.

Revenue is predominantly privately funded although an increasing volume of work is coming from the DHB's to satisfy excess public demand. Patients requiring radiology services must be referred by a General Practitioner or specialist. As a consequence, the marketing strategy is focused on establishing and maintaining good relationships with specialists and General Practitioners. Abano is confident that as the economy grows and new referring doctors and specialists experience the services offered by Insight + Ascot Radiology, the business's earnings will improve.

3.3.3 Financial

The financial performance of Diagnostic for the financial years ended 31 May 2012 and 2013, together with the forecast for the financial year ending 31 May 2014 is outlined below:

Diagnostic Financial Performance ($ millions)

Financial year end 31 May	2012	2013	2014F
Segment revenue	39.9	41.5	43.0
Segment EBITDA[12]	7.9	7.9	7.9
EBITDA margin	*19.8%*	*19.0%*	*18.4%*

3.4 Audiology

3.4.1 Market

Demand for audiology services is growing strongly. Although hearing loss is more common amongst those aged over sixty, hearing problems can affect all ages. The population over 60 now comprises around one third of the population, driving demand for new and improved hearing services and devices. In most OECD countries, including Australia and Asia one in nine people are affected by hearing difficulties. However, whereas 20 to 30 percent of these people are treated for hearing loss in New Zealand and Australia, in Asia the treatment rate is well below five percent.

Five of the corporate audiology businesses in Australasia are owned by equipment manufacturers – Sonova, Oticon, Widex, Sonic and Starkey and a sixth is owned by Amplifon, a worldwide retailer of audiology devices. Together they have in excess of 420 clinics. Aside from the manufacturers, and Amplifon, the major competitor is Australian Hearing (115 clinics), which is a Government provider with no access to the private market. National Hearing, owned by Amplifon, owns Bay Audiology in New Zealand.

Abano sees the Asian market, especially Taiwan, as having significant potential for growth. In Asia, there is an element of stigma attached to wearing hearing devices.

3.4.2 Abano Audiology

Abano's audiology segment comprises a 50:50 joint venture with interests associated with Peter Hutson, one of the original founders of Bay Audiology. The business has operations in Australia and Asia.

Australia

In 2009, Abano sold Bay Audiology, its New Zealand audiology business to Crescent Capital. At the time the decision was taken to not sell the Australian audiology business, which Abano believed had significant growth potential.

Bay International has been a late entrant in a very competitive and highly corporatised market. Growth through acquisition has become unattractive as manufacturers are paying very high prices for independent practices to secure their channel to market. Bay International has a greater focus on private sales than its competitors and believes the layout of its stores and self-assessment touch screens are key differentiators. Nevertheless, the current scale of the business is too small for the size of the overhead structure and for the business to generate appropriate returns it will need to expand its store network.

In Australia, Bay International operates from 33 stores and 20 non-retail testing locations. Since 2009, the Australian audiology business has incurred significant losses, peaking at an EBITDA loss of A$8 million in 2012. The losses have been primarily due to an expansion into Asia and the need to restructure the Australian business. The operating loss in Australia is forecast to more than halve in the year ending 31 May 2014. Abano is forecasting a breakeven EBITDA by the year ending 31 May 2016, or possibly earlier.

[12] Excludes acquisition and divestment costs.

Revenue in Australia is primarily derived from payments through private health insurers and from the Government services organisations, often with top up payments from private individuals. Audiology is labour intensive with labour cost equating to nearly 60% of total revenue. Fortunately the gross margin generated on the sale of hearing aids is very high. A significant number of the clinics owned by the manufacturers have been purchased at multiples believed to be in the range of 1.0 to 2.5 times revenue.

Asia

Asia has been a challenge for Bay International. Bay International commenced operations in Asia with the acquisition of five small clinics in Singapore and two in Hong Kong in December 2008. Today, Bay International has 14 stores in Taiwan, three in Malaysia and three in Singapore. Bay International's model is for stores to be located in high foot traffic retail environments. The Taiwan market is seen by Abano as having the greatest potential for growth in Asia and is now the primary focus of management. The Malaysian and Singapore businesses are both producing positive EBITDA and are to be managed as a single entity. Its key strategy is to introduce a new channel for consumers to access hearing health services, which have traditionally been provided from medical clinics.

3.4.3 Financial

The financial performance of Audiology for the financial years ended 31 May 2012 and 2013, together with the forecast for the financial year ending 31 May 2014 is outlined below:

Audiology Financial Performance ($ millions)

Financial year end 31 May	**2012**	**2013**	**2014F**
Segment revenue	23.4	25.8	29.5
Segment EBITDA[13]	(8.0)	(7.7)	(4.6)
EBITDA margin	*(34.2%)*	*(29.8%)*	*(15.6%)*

[13] Excludes acquisition and divestment costs.

3.5 Rehabilitation

3.5.1 Market

Orthotics is a speciality within the medical field concerning the design, manufacturing and fitting of orthoses - an external device used to modify the structural and functional characteristics of neuromuscular and skeletal systems. Musculoskeletal disorders, joint weakness, back problems, or the inability of any joint or muscle group to function correctly can greatly decrease an individual's quality of life and general mobility. These problems can be caused by congenital factors, traumatic injury, chronic conditions, sports injuries, or degenerative disease. In New Zealand, Abano is the largest supplier of orthotic services competing with a number of predominantly sole practices.

3.5.2 Abano Rehabilitation

Abano's rehabilitation business currently comprises The Orthotic Centre, which provides clinical orthotic services from 6 centres throughout New Zealand.

The Orthotic Centre is 100% by Abano. Orthotic services are predominately funded by ACC and DHB's, the latter under fixed term contracts. Orthotics is a mature business with only limited scope to grow and the potential for the scope of its contracts with the DHB's to be reduced as has already happened in Wellington very recently.

3.5.3 Financial

The financial performance of Rehabilitation for the financial year ended 31 May 2013, together with the forecast for the financial year ending 31 May 2014 is outlined below:

Rehabilitation Financial Performance ($ millions)

Financial year end 31 May	2013	2014F
Segment revenue	12.7	11.3
Segment EBITDA[14]	2.5	2.4
EBITDA margin	*19.7%*	*21.2%*

[14] Excludes acquisition and divestment costs.

4. Financial Overview of Abano

4.1 Financial Performance

The financial performance of Abano for the years ended 31 May 2012 and 2013, together with the forecast for the year ending 31 May 2014, are shown in the table below:

Abano Financial Performance ($ millions)

Year end 31 May	2012A	2013A	2014F
Revenue	206.4	207.0	213.8
Cost of sales	(36.0)	(38.3)	na
Gross profit	**170.4**	**168.8**	**na**
Gross margin	*82.6%*	*81.5%*	na
Cash overheads	(140.6)	(137.5)	na
EBITDA (before head office and acquisition costs)	**29.8**	**31.2**	**33.2**
Head office costs	(2.6)	(2.6)	(3.3)
Acquisition costs	(1.6)	(0.9)	(1.6)
EBITDA[15]	**25.7**	**27.7**	**28.2**
EBITDA margin	*12.4%*	*13.4%*	*13.2%*
Depreciation and amortisation	(8.2)	(9.3)	(10.4)
EBIT[16]	**17.4**	**18.4**	**17.8**
Net finance expenses	(5.1)	(5.8)	(6.3)
Share of losses in Bay International	(4.2)	(5.8)	(2.5)
Revaluation of deferred acquisition consideration	-	(0.5)	-
Gain on sale of subsidiaries	-	1.6	-
Profit before tax	**8.2**	**7.8**	**9.1**
Tax expense	(4.1)	(3.7)	(3.7)
Profit after tax[17]	**4.1**	**4.1**	**5.4**

The following points should be taken into consideration when reviewing the table above:

- In June 2012, Abano sold its brain injury rehabilitation business to BUPA Care Services NZ. This business contributed annual revenue of approximately $11.5 million and EBITDA of $1.2 million; and
- Abano continues to have interests in audiology in Australia and Asia through its investment in Bay International. As the group has joint control of this entity, losses from its 50% shareholding in Bay International have been accounted for under the equity method.

[15] Earnings Before Interest, Tax, Depreciation and Amortisation.

[16] Earnings Before Interest and Tax.

[17] Before non-controlling interests share of profit.

4.2 Financial Position

The financial position of Abano as at 31 May 2011, 2012 and 2013 is outlined in the table below:

Abano Financial Position ($ millions)

As at 31 May	2011	2012	2013
Trade and other receivables	12.4	11.1	11.6
Inventories	5.6	7.0	7.6
Other current assets	0.2	5.0	0.0
Current Assets	**18.2**	**23.1**	**19.2**
Trade and other payables	11.5	12.1	12.2
Employee entitlements	7.3	8.3	8.9
Other current liabilities	1.6	4.0	4.3
Current liabilities	**20.3**	**24.4**	**25.4**
Net working capital	**(2.2)**	**(1.3)**	**(6.1)**
Property, plant and equipment	33.6	35.3	39.5
Intangible assets	92.9	114.9	126.4
Other non-current assets	17.6	18.7	17.3
Non-current assets	**144.1**	**168.9**	**183.2**
Net borrowings[18]	33.6	60.3	84.0
Finance leases[19]	8.0	6.9	7.4
Derivative financial instruments	0.1	3.5	2.6
Other non-current liabilities	4.8	7.0	7.7
Net assets	**91.4**	**90.0**	**75.3**

The following points are relevant when considering the above table:

- Intangible assets primarily consist of goodwill relating to the purchase of dental practices throughout Australasia. Abano's intangible assets as at 31 May 2013 are outlined below:

  Intangible assets ($ millions)

As at 31 May 2013	
Goodwill	
Dental - New Zealand	36.8
Dental - Australia	65.4
Diagnostics	12.6
Rehabilitation	9.1
Total goodwill	**123.9**
Software	2.5
Total intangible assets	**126.4**

- Other non-current assets comprise loans to jointly controlled entity, Bay International ($12.9 million), loans to Radiologist shareholders ($1.5 million) and deferred tax assets ($2.9 million); and
- Net borrowings have increased in recent years due to the acquisition of the minority shareholding in Dental Partners, the continuing expansion of Lumino and Dental Partners, and investment in fixed assets, particularly Radiology. Finance leases relate to radiology equipment.

[18] Borrowings are net of cash and cash equivalents.

[19] The finance lease liability includes amounts classified as current liabilities.

4.3 Cash Flows

The cash flows for Abano for the years ended 31 May 2011, 2012 and 2013 are shown in the table below:

Abano Cash Flows ($ millions)

Year end 31 May	2011	2012	2013
Profit after tax[20]	11.5	1.6	2.8
Add / (Deduct) non-cash items:			
Depreciation and Amortisation	6.3	8.2	9.3
Share of losses in Bay Audiology	5.8	4.2	5.8
Share of surplus retained by non-controlling interest	2.0	2.4	1.2
Movement in working capital	2.8	2.4	1.1
Acquisition and divestment costs	0.8	1.6	0.9
Other non-cash items	(0.7)	0.1	0.3
Realised (gain) / losses on sale of assets	(12.4)	-	(1.6)
Net operating cash flows	**16.1**	**20.6**	**19.9**
Net investing cash flows	(9.1)	(40.8)	(47.0)
Net financing cash flows	(5.0)	24.6	21.5
Increase/(decrease) in cash	**2.1**	**4.4**	**(5.7)**

In reviewing the above table the following should be considered:

- Abano has made significant investments across its business segments in recent years. A breakdown of Abano's investing cash flows is outlined below:

  Net Investing Cash Flows ($ millions)

	2011	2012	2013
Purchases of subsidiaries/ businesses	(15.8)	(26.9)	(35.1)
Sales of subsidiaries/ businesses	29.2	-	5.4
PP&E and intangibles capital expenditure (net of sales)	(11.4)	(6.8)	(11.4)
Dividends paid to non controlling interests	(3.2)	(2.3)	(1.7)
Other investing cash flows (Bay International funding)	(7.8)	(4.8)	(4.3)
Net investing cash flows	**(9.1)**	**(40.8)**	**(47.0)**

- Since 2011, Abano has significantly expanded its dental businesses by acquiring dental practices in Australia and New Zealand. In 2013, Abano further grew its dental business by acquiring the remaining 30% shareholding in Dental Partners for A$14.4 million. The majority of property, plant and equipment purchases relate to dental business, and includes items such as dental chairs, clinic fit out and other equipment;
- The amounts classified as sales of subsidiaries / business relate to the sale of Abano's brain rehabilitation business in the financial year ended 31 May 2013 and the sale of Abano's minority shareholding in National Hearing Centres to Amplifon in the financial year ended 31 May 2011; and
- Property plant and equipment capital expenditure was higher than normal in the financial year ended 31 May 2013, as $4.2 million was spent on new equipment for the Millennium Institute, and in the financial year ended 31 May 2011, Abano spent $4.5 million on new CT-PET equipment.

[20] Profit and tax after non-controlling interests.

4.4 Capital Structure and Ownership

As of 29 October 2013, Abano had 20.4 million shares on issue held by approximately 2,300 shareholders. The Company's top 20 shareholders are shown in the table below:

Abano Top 20 Shareholders as at 8 November 2013

Shareholder	Shares (000s)	%
ASB Nominees	2,829	13.9%
TEA Custodians, via NZCSD	2,266	11.1%
ACC, via NZCSD	1,381	6.8%
Forsyth Barr Custodians	1,131	5.5%
JP Morgan Chase, via NZCSD	861	4.2%
Superlife Trustee Nominees	832	4.1%
Custodial Services	482	2.4%
Forsyth Barr Custodians	474	2.3%
Sok Eng Boey & Yeow Ann Chiam & Kay Hong Chiam & Shen Mei Chiam	358	1.8%
Forsyth Barr Custodians	335	1.6%
New Zealand Permanent Trustees, via NZCSD	328	1.6%
Rotorua Trust Perpetual Capital Fund	262	1.3%
Alan William Clarke	194	1.0%
Lloyd James Christie	171	0.8%
Grant Michael Novak & Jacqueline Francesca Vervoort & NKS Trustees	155	0.8%
Custodial Services	151	0.7%
Jarden Custodians	150	0.7%
Clinton Adam Teague	145	0.7%
Forsyth Barr Custodians	134	0.7%
Custodial Services	126	0.6%
Top 20 Shareholders	**9,937**	**48.7%**
Other Shareholders	**10,473**	**51.3%**
Total	**20,411**	**100.0%**

Abano Substantial Security Holders as at 22 November 2013

Shareholder	Shares (000s)	%
Archer Capital/Hutson/Reeves[21]	3,771	18.5%
Fisher Funds Management	1,654	8.1%
ACC	1,027	6.8%
Substantial shareholders	**6,452**	**31.6%**
Other Shareholders	**13,959**	**68.4%**
Total	**20,411**	**100.0%**

The following table shows the volume of Abano shares traded over the past 12 months, the price ranges and the volume weighted average price for the respective time periods.

Abano Share Trading Summary (up to 21 November 2013)

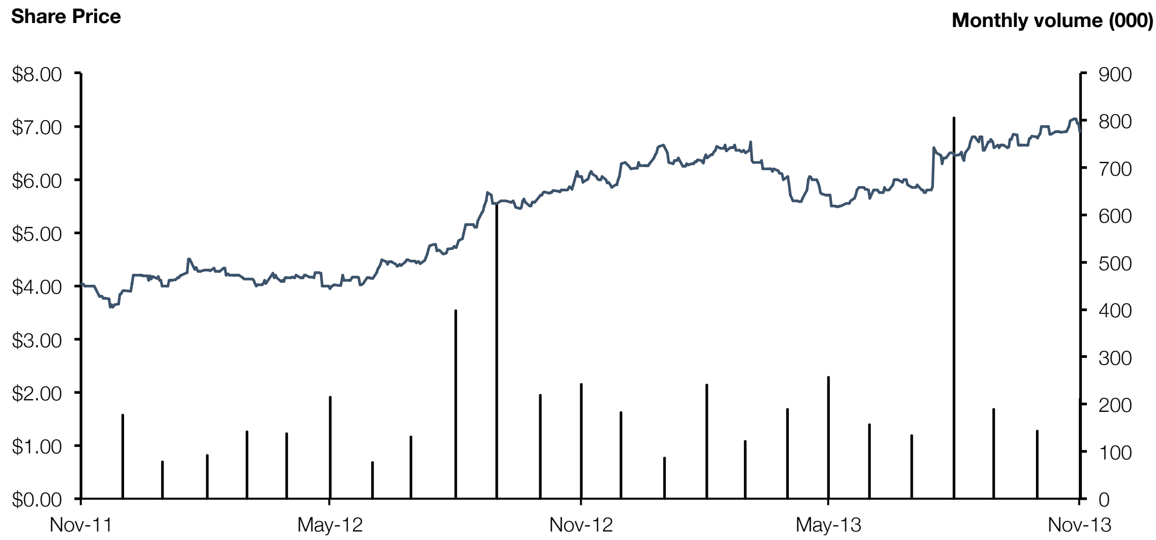
Time period	Low	High	VWAP	Volume (000s)
1 months	6.50	7.20	6.97	212
3 months	6.35	7.20	6.78	543
6 months	5.49	7.20	6.19	1,640
12 months	5.49	7.20	6.19	2,717

[21] The Archer Capital interest arises due to an exclusivity deed with Hutson and Reeves interests, not a beneficial interest in the shares.

4.5 Share Price Performance

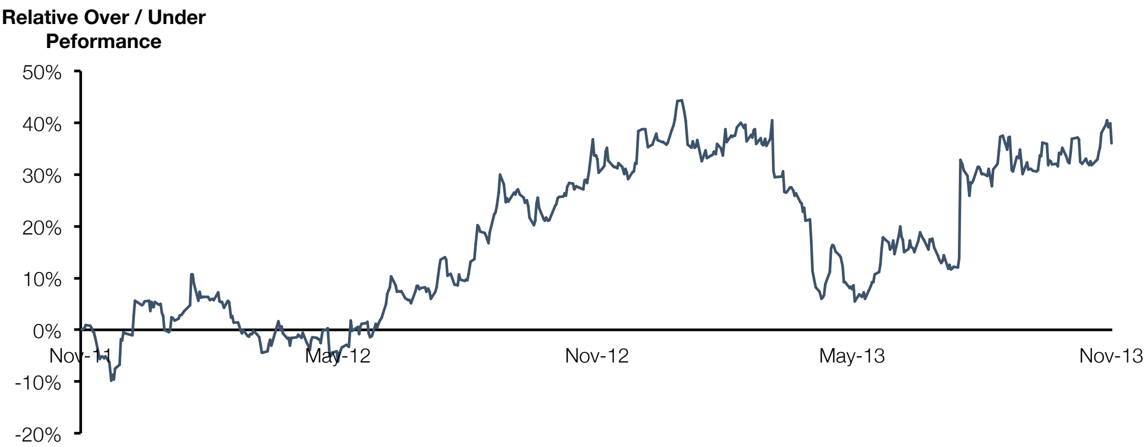
The share price and trading volume history of Abano shares is depicted graphically below.

Abano Share price performance over the last two years



Abano's share price against the NZX50 index is shown in the graph below:

Abano Share Price Performance relative to the NZX50 Capital Index



5. Forecast Commentary

The projected earnings for Abano by segment for the year to 31 May 2014 are summarised below:

Forecast EBITDA for year ending 31 May 2014 versus EBITDA for valuation purposes ($ millions)

Segment	Forecast EBITDA	EBITDA for valuation
Dental	22.9	27.0
Diagnostics (excluding EBITDA attributable to minority shareholders)	4.8	6.0
Rehabilitation	2.4	2.4
Corporate overheads	(3.3)	(2.9)
Underlying EBITDA	**26.8**	**32.5**

The following comments are relevant to an analysis of the financial projections:

Dental Partners

Dental Partners is the largest business unit of Abano. It is the second largest corporate dental consolidator in Australia with 68 clinics and it operates in a market that spends A$8.2 billion per year in dentistry. When compared to three of the other largest five corporate consolidators, Dental Partners is understood to be the fastest growing corporate group in Australia, with a three year compound annual growth rate in revenue of 36%.

Current same store trading is believed to be line with other corporate dental consolidators. The market has been affected by the removal of a government scheme, Chronic Disease Dental Scheme (**CDDS**) at the end of November 2012, (see below). In addition, there is now a weak Australian economy that is affecting consumer spending and resulting in some customers deferring dental expenditure.

The ending of the CDDS was noted by listed competitor 1300 Smiles who advised of a 20% revenue exposure to this government scheme:

> *"The market will remain over-supplied with dentists for the foreseeable future. This will be something of a problem for everyone in the dental industry, but this situation delivers both positives and negatives for 1300SMILES. On the negative side, the scale of the entire Australian dental industry has endured a step-change down to a lower level and future growth must start from that lower base. On the positive side, we doubt that dentists will be over-aggressive in their negotiations over management fees in the coming years."*[22]

The abolition of the CDDS, which had accounted for an estimated 8% of Dental Partners' total dentistry revenue, may assist Abano in paying lower prices for new dental practices. Dental Partners has a relatively low reliance on schemes like the CDDS, with a high level of private patient spend, and an acquisition strategy of avoiding government funding.

Dental Partners' full year revenue and EBITDA forecasts indicate continued strong acquisition growth with seven large acquisitions completed as of November 2013 and another 13 acquisitions expected to be completed by May 2014. Given the current economic conditions in Australia, and the impact this is having on the dental market, organic same store growth is expected to continue to be flat to negative in the absence of a branded marketing tool, which is scheduled to be introduced, over the next 12 months, on a similar basis to Lumino in New Zealand.

Another contributing factor affecting reported performance is the impact of the weak Australian dollar and the conversion of the financial results in New Zealand dollars for reporting purposes. The New Zealand dollar has risen 13% against the Australian dollar over the last twelve months and impacted reported results. Abano management estimate this non-cash consolidation accounting, will impact the Dental Partners reported EBITDA by over NZ$620,000 for the six months ending 30 November 2013. Abano hedges its Australian assets by having Australian denominated debt of A$48 million funding its Australian dental assets.

[22] Source: 1300Smiles 2013 Annual Report.

Lumino

Lumino is a business that is slightly larger in clinic numbers than Dental Partners, but smaller in revenue, reflecting the smaller average clinic size characteristic of the New Zealand market. It operates in a NZ$650 million market and has around a 10%-15% market share. Lumino is also growing by acquisition with three acquisitions completed by November 2013 and another five planned by year end.

Lumino introduced a consumer branded television marketing campaign that has seen its same store revenue grow over the last two years by an estimated 14% better than the market. As there are no large government schemes or subsidies in New Zealand, Lumino has been affected by the recession of 2009 and the soft and slowly recovering economy since then.

Lumino's revenue and EBITDA will grow this year by acquisition and same store growth. It has lower operating margins than Dental Partners, in part due to the smaller number of personnel per practice and lower market pricing per procedure, which is a consistent feature of the New Zealand market compared to the Australian market. Lumino has one other corporate competitor in Dental Corporation which owns 21 clinics compared to Lumino's 79.

Pathology

Wellington based Aotea Pathology is a consistent and profitable performer. Medlab Wellington was merged in 2006 with Sonic Healthcare owned Valley Diagnostics to form Aotea Pathology, which then won a five year $102 million contract of services. That contract with the lower North Island DHB's was extended for a further three years to expire in October 2014. While there is no certainty that there will be an extension past that date, Abano has recently agreed to extend the contract by one year to October 2015. Abano is working with the Government to develop a contracting model, which could involve an expansion of the work currently undertaken and a significantly increased tenure.

Radiology

After significant investment and expansion of facilities over the last two years, the newly merged Radiology group is seeing slower than planned revenue growth. This is attributed to a competitive Auckland market, ACC restrictions on some orthopeodic procedures and the necessity for this business to target and market its capability more effectively.

All radiology in New Zealand requires a referral from a medical practitioner. Insight + Ascot has modern state of the art technologies and highly qualified Radiologist partners. Grant Samuel has taken the view that with time the new investments in Pet-CT and the Millennium Centre, along with new CT's and upgraded MRI's will lead to a steady uptake and increase in revenues and a generation of EBITDA to revenue margins that Abano enjoyed in the recent past.

Rehabilitation

Rehabilitation is now only represented by the Orthotic business following Abano's sale of its Brain Injury rehabilitation business at the start of the current financial year. The Orthotic business is a national provider but reliant on DHB contacts. It has been a solid and consistent performer. Its New Zealand growth opportunities are limited and it is likely to see revenues and EBITDA remain static to marginally declining going ahead. There may be some opportunity for the business to invest and expand and there is some recognition by central government that short term, price driven contracts are not productive. In the wider Abano context, this business is considered a limited growth opportunity.

Audiology

The consolidated audiology group reported revenues of NZ$26 million in the financial year ended 31 May 2013. The Australian business has enjoyed revenue growth of 17% for the financial year ended 31 May 2013 in a market where the two largest players, Amplifon and Australian Hearing reported declining revenues and profitability. This business has now grown from revenues of A$16.4m in the financial year ended 31 May 2013 to have forecasted revenues in excess of A$21 million in the financial year ending 31 May 2014.

In October 2013, management reported monthly revenues of just under A$2 million with a positive EBITDA and if this trend continues, this business will move into positive cash flow and EBITDA ahead of its plan. This turn around is attributed by Abano to a new management team recruited in 2011, whom have spent the last two years stabilising the business, improving systems, margins and the retail experience. This new management team believe there is scope within Australia to open up to a further 100 new retail stores. New store development has been put on hold and is currently planned to recommence in the financial year ending May 2015.

The Asian businesses operate in a significant and large market that is characterised by growing and affluent populations that have very low penetration rates of hearing aid use despite a similar incidence of hearing loss to western countries. The opportunity to enter and establish a footprint to grow from has been the primary reason to enter this market. The entry was initially into Singapore, Hong Kong and then Malaysia, followed some months later by a seed investment into Taiwan. A decision was taken at the July 2013 to close the three Hong Kong retail stores and the Hong Kong regional head office was subsequently moved to Taipei in Taiwan. The remaining businesses in Singapore and Malaysia are profitable at EBITDA, with Taiwan almost at breakeven at EBITDA.

Hearing aid manufacturers in Australia and Asia own a significant number of retail chains. There is fierce competition between the manufacturers to ensure that they maintain either vertical integration or maintain access through to the retail consumer. Abano has had a number of discussions with hearing aid companies over the last five years and they are in no doubt that the Australian and Asian chains are of interest to several of these manufacturers who appear willing to pay multiples of between 1.0x to 2.5x revenue.

6. Valuation of Abano

6.1 Summary

Grant Samuel's valuation of the equity in Abano is $169.3 million - $205.0 million as at 31 October 2013, as summarised below:

Abano – Valuation Summary

$ million except where otherwise stated	Low	High
Dental	229.5	256.5
Diagnostics (excluding minority interests)	39.3	45.3
Rehabilitation	9.6	12.0
Corporate Overhead	(20.0)	(22.8)
Enterprise value	**258.4**	**291.0**
Investment in Bay International (50%)	16.7	19.8
Net debt for valuation purposes	(105.8)	(105.8)
Equity value	**169.3**	**205.0**
Fully diluted shares on issue (million)	20.4	20.4
Value per share ($/share)	**$8.30**	**$10.05**

An enterprise value range of $258.4 - $291.0 million has been attributed to Abano's business operations, excluding the investment in Bay International. This valuation range is an overall judgement having regard to:

- earnings multiples;
- attributes and earnings outlook of the business units of Abano; and
- the attractiveness of the healthcare sector to potential investors.

The valuation represents the estimated full underlying value of Abano assuming 100% of the company was available to be acquired and includes a premium for control. The value exceeds the price at which, based on current market conditions, Grant Samuel would expect Abano shares to trade on the NZX. Grant Samuel make the following comments to the valuation:

- For the purposes of valuing the dental business, Grant Samuel has assumed that all of the dental practices already acquired and those to be acquired during the course of the financial year were acquired at the beginning of the financial year. Net debt has been increased by $14.9 million to reflect the purchase price of dental practices that Abano expects to purchase over the balance of the year. The reason for this treatment is that 28 dental practices are planned to be acquired during the course of the year ending 31 May 2014, which will only produce a reduced contribution to earnings in the year in which they are acquired resulting in the forecast EBITDA understating the maintainable earnings of the dental business;
- Bay International is currently loss making in Australia and approximately breakeven in Asia. The Australian business has significant potential to expand and generate good earnings once the new store development is recommenced. The existing 53 store network has been valued on the basis of a liquidation by applying multiples of 7 – 8 times to the store EBITDA and deducting one year's overhead costs resulting in a valuation of NZ$29.0 – 34.2 million for the Australian business. The Asian business has been valued by applying a multiple of 0.75 – 1.0 to current year revenue. Despite Taiwan having considerable potential for growth given the very low penetration of audiology outlets, Grant Samuel is not convinced that Bay International has developed a workable strategy for achieving sustained growth in this market;
- Whilst Aotea has a good relationship with the DHB's, the uncertainty of a long-term renewal has impacted negatively on the valuation of Aotea and it has scaled back capital expenditure to essential spending only; and
- The valuation of the Diagnostics business is the sum of the values of the Pathology and Radiology businesses.

The valuation reflects the strengths and weaknesses of Abano and takes into account the following factors:

- the attractiveness of the various business units to potential purchasers;
- the markets in which they operate; and
- the potential for growth, or otherwise.

Net debt for valuation purposes

Net debt as at 31 October 2013 of $105.8 million comprises:

Abano Net Debt as at 31 October 2013

$ million except where otherwise stated	$ millions
Bank debt	84.9
Cash	(5.6)
Deferred consideration	9.4
Finance Leases	6.8
Purchase price of dental practices to be acquired in the balance of the current financial year	14.9
Less minority share of bank debt and finance leases in Radiology	(4.6)
Net Debt	**105.8**

6.2 Earnings Multiple Analysis

Implied Multiples

Grant Samuel estimates the enterprise value of Abano on an un-geared basis to be in the range of $258.4 – $291.0 million. This range implies the following multiples:

Abano - Implied Multiples

	Valuation Range	
	Low	High
Multiple of Revenue – year ended 31 May 2013 (historic)	1.2	1.4
Multiple of Revenue – year ending 31 May 2014 (forecast)	1.1	1.3
Multiple of Revenue – valuation	1.0	1.2
Multiple of EBITDA – year ended 31 May 2013 (historic)	10.2	11.5
Multiple of EBITDA – year ending 31 May 2014 (forecast)	9.7	10.9
Multiple of EBITDA – valuation (forecast)	7.9	8.9
Multiple of EBIT – year ended 31 May 2013 (historic)	15.4	17.3
Multiple of EBIT – year ending 31 May 2014 (forecast)	15.1	17.0
Multiple of EBIT – valuation	11.2	12.6

The earnings and revenue used to calculate the above multiples include only Abano's share of the earnings and revenues for Diagnostics. The multiples implied by the valuation are higher than those used to value the individual business units. The forecast EBITDA for Abano for the year ending 31 May 2014 is lower than the EBITDA for valuation purposes, resulting in higher implied forecast multiples.

Preferred Methodology

Overview

Grant Samuel's valuation of Abano has been estimated on the basis of fair market value as a going concern, defined as the estimated price that could be realised in an open market over a reasonable period of time assuming that potential buyers have full information. The valuation of Abano is appropriate for the acquisition of the company as a whole and accordingly incorporates a premium for control. The value is in excess of the level at which, under current market conditions, shares in Abano could be expected to trade on the share market. Shares in a listed company normally trade at a discount of 15% - 25% to the underlying value of the company as a whole, but the extent of the discount (if any) depends on the specific circumstances of each company.

The most reliable evidence as to the value of a business is the price at which the business or a comparable business has been bought and sold in an arm's length transaction. In the absence of direct market evidence of value, estimates of value are made using methodologies that infer value from other available evidence. There are four primary valuation methodologies commonly used for valuing businesses:

- capitalisation of earnings or cash flows;
- discounting of projected cash flows;
- industry rules of thumb; and
- estimation of the aggregate proceeds from an orderly realisation of assets.

Each of these valuation methodologies has application in different circumstances. The primary criterion for determining which methodology is appropriate is the actual practice adopted by purchasers of the type of business involved. A detailed description of each of these methodologies is outlined at Appendix C.

Preferred Approach

Grant Samuel has adopted a capitalisation of earnings methodology on the basis that the business units of Abano have consistent earnings and predictable cash flows. In Grant Samuel's experience these businesses are transacted using earnings multiples for which there is good available evidence.

Comparable Transactions

The valuation of Abano has been considered having regard to the earnings multiples implied by the price at which broadly comparable companies and businesses have changed hands.

Dental

A selection of relevant global dental sector transactions is set out below:

Recent Transaction Evidence in the Dental Sector

Closed Date	Target	Acquirer	Implied Enterprise Value (millions)	Revenue multiple (times)		EBITDA multiple (times)	
				Historical	Forecast	Historical	Forecast
Australasia							
May 2013	Dental Corporation	BUPA	A$374	1.1	na	na	9.1
Jul 2012	Dental Partners	Abano	NZ$60	na	3.3	na	11.1
Jul 2012	Pacific Smiles	TDM Asset Mgmt'	A$65	na	na	8.8	na
Feb 2011	Dental Corporation	Fortis / BUPA	A$333	na	na	8.0	na
Average				**1.1**	**3.3**	**8.4**	**10.1**
Median				**1.1**	**3.3**	**8.4**	**10.1**
North America							
Dec 2012	Heartland Dental	Teachers' Capital	GBP800	2.9	na	10.6	na
Feb 2012	American Dental Partners	JLL Partners	US$390	1.3	1.3	8.0	8.3
Oct 2010	Aspen Dental Management	Ares Management	US$548	1.6	na	11.0	na
Sep 2006	FORBA	Carlyle Group	US$435	na	na	10.0	na
May 2006	Western Dental	Citigroup V.C.	US$380	na	na	8.2	na
May 2005	Bright Now!	Freeman Spogli	US$340	0.9	na	9.2	na
Average				**1.7**	**1.3**	**9.5**	**8.3**
Median				**1.4**	**1.3**	**9.6**	**8.3**
United Kingdom							
Mar 2013	Oasis Healthcare	Bridgepoint	GBP185	1.3	na	10.4	na
Jul 2011	Integrated Dental	Carlyle Group	GBP600	na	na	10.4	na
Sep 2007	Oasis Healthcare	Duke Street Capital	GBP112	1.2	na	11.9	na
Average				**1.2**	**-**	**10.9**	**-**
Median				**1.2**	**-**	**10.4**	**-**
Average (all)				**1.5**	**2.3**	**9.7**	**9.5**
Median (all)				**1.3**	**2.3**	**10.0**	**9.1**

Source: Media reports, company announcements, annual reports and presentations.

Audiology, Diagnostics and Rehabilitation

A selection of relevant transaction in the audiology, diagnostics and rehabilitation sectors are set out below:

Recent Transaction Evidence in the Audiology, Diagnostics and Rehabilitation Sectors

Closed	Target	Acquirer	Implied Enterprise Value (millions)	Revenue multiple (times)		EBITDA multiple (times)	
				Historical	Forecast	Historical	Forecast
Audiology							
Dec 2010	NHC	Amplifon	A$460	3.2	na	11.2	na
Nov 2009	Bay Audiology	NHC	NZ$158	2.5	na	8.0	7.0
Oct 2005	Bay Audiology	Abano	NZ$30	na	na	5.7	5.0
Average				**2.9**	**-**	**8.3**	**6.0**
Median				**2.9**	**-**	**8.0**	**6.0**
Diagnostics and Rehabilitation							
Sep 2013	Labco	Sonic Healthcare	EUR$76	1.4	na	na	na
Jun 2012	Abano Rehabilitation	BUPA Care NZ	NZ$5.7	0.5	na	4.8	na
Jun 2011	Healthe Care Australia	Archer Capital	A$230	1.0	na	9.3	na
Feb 2011	Central Coast Pathological	Sonic Healthcare	US$28	1.4	na	na	6.0[23]
Dec 2010	Nighthawk Radiology	Virtual Radiologic	US$196	1.3	na	8.7	na
Dec 2010	CBLPath	Sonic Healthcare	US$120	1.5	na	na	8.0
Oct 2010	Healthscope	The Carlyle Group	A$1,900	1.4	1.4	10.1	9.6
Feb 2010	Medhold	Sonic Healthcare	EUR$248	na	na	na	8.4
Aug 2009	PML and Axiom Labs	Sonic Healthcare	US$22.5	1.4	na	na	5.0
Sep 2008	Clinical Labs of Hawaii	Sonic Healthcare	US$121	1.1	na	na	6.2[24]
Sep 2008	GLP Medical	Sonic Healthcare	EUR30	na	na	na	8.6
Sep 2008	IPN	Sonic Healthcare	A$326	2.6	na	20.1	13.4
Jul 2008	Labor 28	Sonic Healthcare	EUR74	na	na	na	8.8
Apr 2008	Gemini	IPN	A$32	na	1.1	na	6.5
Mar 2008	Symbion Health	Primary Healthcare	A$3,070	0.8	0.7	12.1	10.9
Average				**1.3**	**1.1**	**10.9**	**8.3**
Median				**1.4**	**1.1**	**9.7**	**8.4**

Source: *Media reports, company announcements, annual reports and presentations.*

Brief descriptions of the transactions included above are provided in Appendix A. Each transaction has its own unique set of circumstances. As such it is often very difficult to identify trends or draw any meaningful conclusions.

[23] Includes expected synergies.

[24] Includes expected synergies.

Share Market Evidence

The valuation of Abano has been considered in the context of the share market ratings of listed Australasian and international healthcare services companies. While none of these companies is precisely comparable to Abano, the share market data provides some framework within which to assess the valuation of Abano.

Share Market Ratings of Selected Listed Companies[25]

Company	Market Capitalisation (millions)	Revenue Multiple (times)		EBITDA Multiple[26] (times)	
		Historic	Forecast	Historic	Forecast
Dental					
1300 Smiles	A$157	4.1	3.7	13.3	11.6
Birner Dental Management	US$33	0.7	na	9.2	na
Audiology					
Amplifon	EUR853	1.4	1.4	8.3	9.3
Diagnostics and Rehabilitation					
Capitol Health	A$194	3.1	2.2	nm	15.5
Sonic Healthcare	A$6,612	2.4	2.2	13.3	11.3
Primary Health Care	A$2,424	2.4	2.3	9.4	8.5
Vision Eye Institute	A$114	1.4	na	6.0	na
Quest Diagnostics	US$8,987	1.7	1.7	8.1	8.5
Laboratory Corp of America	US$9,191	2.0	2.0	9.5	9.3
Other Australasian Healthcare					
EBOS	NZ$1,373	nm	0.2	nm	6.7
Average		**2.1**	**2.0**	**10.8**	**10.1**
Median		**2.0**	**2.1**	**9.7**	**9.3**

Source: Grant Samuel analysis[27]

A description of each of the companies above is set out in Appendix B. When observing the table above the following points should be noted:

- the multiples are based on closing share prices as at 22 November 2013. The share prices, and therefore the multiples, do not include a premium for control. Shares in a listed company normally trade at a discount to the underlying value of the company as a whole;
- the companies selected have varying financial year ends. The data presented above is the most recent annual historical result plus the subsequent forecast year; and
- there are considerable differences between the operations and scale of the comparable companies when compared with Abano. In addition, care needs to be exercised when comparing multiples of New Zealand companies with internationally listed companies. Differences in regulatory environments, share market and broader economic conditions, taxation systems and accounting standards hinder comparisons.

[25] The companies selected have a variety of year ends. The financial information presented in the Historic column corresponds to the most recent actual annual result. The forecast column corresponds to the forecast for the subsequent year.

[26] Represents gross capitalisation (that is, the sum of the market capitalisation adjusted for minorities, plus borrowings less cash as at the latest balance date) divided by EBITDA.

[27] Grant Samuel analysis based on company announcements and, in the absence of company published financial forecasts, brokers' reports. Where company financial forecasts are not available, the median of the financial forecasts prepared by a range of brokers has generally been used to derive relevant forecast value parameters. The source, date and number of broker reports utilised for each company depends on analyst coverage, availability and recent corporate activity.

Appendix A - Recent Transaction Evidence

A brief description of each of the transactions listed in Section 6 is outlined below:

Dental (Australasia)

Dental Corporation / BUPA Australia

In May 2013, BUPA Australia agreed to acquire Dental Corporation from Fortis Healthcare, management, dentists and others for approximately A$350 million. An additional earn out payment will be given based on the achievement of EBITDA. Dental Corporation provides dental services in Australia and New Zealand. The company offers dental services, such as general dentistry, cosmetic dentistry and sedation. The company has approximately 180 practices and for the year ended 30 June 2012, generated revenues of A$339 million. The acquisition was completed in May 2013.

Dental Partners / Abano

In July 2012, Abano acquired the remaining 30% stake in Dental Partners from Mike Timoney, David Garofalo and a number of founding dentists for A$14.4 million.

Pacific Smiles / TDM Asset Management

In July 2012, Sydney based private equity firm TDM Asset Management acquired a 19.99% shareholding in dental centre owner Pacific Smiles Group, valuing the company at A$65 million. TDM purchased its shareholding for A$13 million. Pacific Smiles Group operates dental and eye centres in Australia.

Dental Corporation / Fortis Healthcare

In January 2011, Fortis Global Healthcare Holdings acquired a 30% shareholding in Dental Corporation from Alfred Street Nominees for A$65.5 million. Dental Corporation provides dental services in Australia and New Zealand. The company offers dental services, such as general dentistry, cosmetic dentistry and sedation. The company has approximately 180 practices and for the year ended 30 June 2012, generated revenues of A$339 million. The acquisition was completed in May 2013.

Dental (North America)

Heartland Dental / Teachers' Private Capital

In December 2012, Teachers' Private Capital acquired an unknown majority stake in Heartland Dental Care from CHS Capital and others sellers for approximately £800 million. As part of the transaction, Heartland Dental Care founder and Chief Executive Officer, Rick Workman will retain a significant minority position along with management and employees. Heartland Dental operates as a dental practice management organisation in the United States with approximately 370 practices.

American Dental Partners / JLL Partners

In February 2012, JLL Partners acquired American Dental Partners from Stadium Capital Partners and other investors for approximately US$300 million in cash. American Dental Partners provides business services, dental facilities, and support staff to multidisciplinary dental group practices in the United States. It acquires selected assets of the dental practices with which it affiliates and enters into service agreements with professional corporations, professional associations, or service corporations. As of December 31, 2010, it was affiliated with 26 dental group practices comprising 576 dentists practicing in 278 dental facilities in 21 states.

Aspen Dental Management / Ares Management

In October 2010, Leonard Green & Partners along with management of Aspen Dental Management and Ares Management agreed to acquire Aspen Dental Management for approximately US$550 million. Aspen Dental Management provides dental and denture services in the United States. For the 12 months ended June 30, 2010, Aspen Dental had revenue of approximately US$350 million and EBITDA of approximately US$50 million.

FORBA / The Carlyle Group

In September 2006, a consortium including Arcapita Corporate Investments, The Carlyle Group and existing senior management of the business signed an asset purchase agreement to acquire substantially all the assets of FORBA and certain other related entities for US$435 million. Under the terms of the agreement, Bruno DeRose and other members of his family agreed to sell the assets for a price equal to 10 times EBITDA. Church Street Health Management operates a network of centres that provide dental health services for low-income families and their children in the United States.

Western Dental / Citigroup Venture Capital

In June 2006, Citigroup Venture Capital agreed to acquire Western Dental Services for approximately US$380 million. The implied EBITDA multiple for the transaction was reported at 8.8 times. Western Dental Services is a dental and oral health maintenance company in the United States.

Bright Now! / Freeman Spogli & Co

In May 2005, Freeman Spogli & Co and California State Teachers Employees' Retirement System acquired a majority interest in Bright Now! from Gryphon Investors for US$340 million. Gryphon will retain minority interest in the company. Bright Now! has EBITDA of about US$37 million and annual sales of US$360 million to US$385 million. Bright Now! provides support services to general and multi-specialty dental groups in the United States. The company primarily focuses on the provision of oral health care accessible to families and individuals.

Dental (United Kingdom)

Oasis Healthcare / Bridgepoint Advisers and Duke Street

In March 2013, Bridgepoint Advisers Limited and Duke Street acquired Oasis Healthcare Limited from Duke Street and management for approximately £190 million. Duke Street will roll over a portion of the proceeds from the sale to retain a minority stake in Oasis. Oasis provides NHS and private dental care services in the UK, and are the second largest dentist chain in the UK.

Integrated Dental / The Carlyle Group

In July 2011, Carlyle Group completed the merger of Integrated Dental Holdings, which it acquired from Bank of America Merrill Lynch for £450m, and Associated Dental Practices, which was owned by Palamon Capital Partners. The merged entity had almost 450 dental practices. The deal valued the two companies at £600m. The deal values the two companies at 10 to 10.9 times their combined EBITDA of £55-60m. The combined market share of the two companies is approximately 6%.

Oasis Healthcare / Duke Street Capital

In September 2007, Duke Street Capital acquired Oasis Healthcare from Foresight PLC and other investors for approximately £78 million. Oasis Healthcare provides NHS and private dental care services in the UK, and are the second largest dentist chain in the UK.

Audiology:

NHC Group / Amplifon

In December 2010, Amplifon agreed to acquire NHC Group from Crescent Capital Partners, Abano and other shareholders for A$460 million in cash. NHC Group provides hearing healthcare services and products through a network of clinics in Australia and New Zealand. For the year ended June 2010, NHC had revenues of A$144 million and EBITDA of A$41 million. The acquisition was completed in December 2013.

Bay Audiology / NHC Group

In November 2009, National Hearing Care (New Zealand) acquired Bay Audiology from Abano and Peter Hutson for approximately NZ$158 million. Post acquisition, Bay Audiology was merged into National Hearing Abano and Peter Hutson had an option to take up to NZ$30 million of equity in the new combined entity, which was exercised.

Bay Audiology / Abano

In October 2005, Abano acquired a 70% shareholding in Bay Audiology for approximately NZ$21 million. The remaining 30% continued to held by Bay Audiology's three founding clinical directors.

Diagnostics and Rehabilitation:

Labco's German Laboratory Business / Sonic Healthcare

In September 2013, Sonic Healthcare reached a binding agreement to acquire the German laboratory business from Labco S.A.S. for €76 million. The business will be integrated into the organisational and operational structure of Sonic Healthcare Germany. The business reported revenue of approximately €53 million for the year ended December 31 2012. The transaction is expected to be immediately earnings per share accretive and accretive to Sonic's return on invested capital once synergies have been achieved. The transaction is expected to complete in December 2013.

Abano Rehabilitation / BUPA Care Services NZ

In June 2012, BUPA Care Services acquired Abano's brain rehabilitation business, Abano Rehabilitation for NZ$5.7 million. The revenue and EBITDA of the business for the financial year ended 31 May 2012 was NZ$11.5 million and NZ$1.2 million respectively. Substantially all of Abano Rehabilitation's revenue is generated under short-term Government contracts, with limited potential for future growth.

Healthe Care Australia / Archer Capital

In June 2011, Archer Capital and Healthe Care senior management team won the auction to acquire Healthe Care Australia from CHAMP Ventures and other investors for A$250 million. Healthe Care Australia operates a network of private hospitals that offer inpatient, outpatient, and community based health care services in Australia. The company offers community nursing services that include acquired brain injury care, disability care, postnatal care, palliative care, general nursing care, personal care, and assistance with daily living; and workplace health services, including workplace rehabilitation programs. It assists a range of clients, including the elderly, people with disabilities, terminal illnesses, and those recovering from surgical procedures.

Central Coast Pathology Consultants / Sonic Healthcare

In February 2011, Physicians Automated Laboratory, a subsidiary of Sonic Healthcare, completed the acquisition of Central Coast Pathology Consultants for US$28 million. Coast Pathology Consultants provides clinical and anatomic pathology laboratory services in the United States, and had annual revenues of more than US$20 million at the time of the acquisition. The forecast EBITDA multiple implied by the transaction is approximately 6.0 times (post synergies).

Nighthawk Radiology / Virtual Radiologic

In December 2010, Virtual Radiologic Corporation acquired NightHawk Radiology for approximately US$170 million in cash. NightHawk Radiology Holdings provides diagnostic radiology services, professional services, business services, and clinical workflow technology to radiology groups and hospitals in the United States. As of December 31 2009, it provided professional radiology services to approximately 800 radiology practices serving approximately 1,500 hospitals.

CBLPath / Sonic Healthcare

In December 2010, Sonic Healthcare acquired CBLPath from Galen Partners and other investors for approximately US$120 million. The purchase price will be funded from Sonic's existing debt facilities, and represents a prospective financial year 2012 EBITDA multiple of 8 times (pre synergies). CBLPath had annual revenues exceeding $80 million. Significant revenue synergies were expected to be realised from the cross sell opportunities in FY2012 and following years. CBLPath is a specialty lab that provides sub-specialized anatomic pathology and molecular diagnostic laboratory services in the United States of America.

Healthscope / The Carlyle Group

In October 2010, The Carlyle Group and TPG Capital acquired Healthscope for approximately A$2.35 billion in cash. Healthscope Limited is involved in the ownership and management of hospitals and medical centers, as well as provides diagnostic services (pathology). It operates 43 medical/surgical, rehabilitation, and psychiatric private hospitals, as well as approximately 45 medical centers within Australia; and provides pathology services in Australia, New Zealand, Singapore, and Malaysia.

Medhold / Sonic Healthcare

In February 2010, Sonic Healthcare acquired MedHold from Waterland Private Equity Annie Vereecken and Geert Salembier. The purchase price is based on an enterprise value of €232 million and represents an EBITDA multiple of approximately 8.4 times (before synergies). The deal will be funded from existing cash and debt facilities. Medhold is a private clinical laboratory that carries out analysis for human, industrial, and veterinary medicines in Belgium and the Netherlands.

PML and Axiom Labs / Sonic Healthcare

In August 2009, Sonic Healthcare Ltd acquired Piedmont Medical Laboratory (**PML**) and Axiom Laboratories for US$22.5 million in cash. The consideration includes a performance-based earn out of up to US$2.5 million payable over two years. PML reported revenues of $11 million and Axiom reported revenues of US$5 million, in 2008.

Clinical Labs of Hawaii / Sonic Healthcare

In September 2008, Sonic Healthcare acquired Clinical Laboratories of Hawaii for US$121 million in cash. The debt free deal value contained of US$3 million as earnout payments. The consideration equated to a prospective post synergies EBITDA multiple of approximately 6.2 times. Clinical Laboratories of Hawaii is a medical laboratory testing company that provides anatomical and clinical tests for physicians, hospitals and clinics, and medical groups in Hawaii.

GLP Medical Group / Sonic Healthcare

In September 2008, Sonic Healthcare acquired GLP Medical Group. The consideration was based on a prospective EBITDA multiple of approximately 8.6 times (excluding synergies). GLP Medical is a medical laboratory business.

Independent Practitioner Network / Sonic Healthcare

In September 2008, Sonic Healthcare acquired the remaining 28.5% stake in Independent Practitioner Network (**IPN**) for A$75.5 million. IPN operates medical centres in Australia. It offers general practice management, skin health diagnostic, and image cosmetics services.

Labor 28 / Sonic Healthcare

In July 2008, Sonic Healthcare acquired Labor 28 for €74 million. The purchase price for the transaction was based on an EBITDA multiple of 8.8 times (excluding synergies). Labor 28 provides laboratory services including clinical diagnostic services in Germany.

Gemini / Independent Practitioner Network

In April 2008, Independent Practitioner Network acquired Gemini Administration Services for A$32 million. IPN expects the Gemini business to contribute between A$27 million and A$29 million in revenue in financial year 2009, and expects the financial year 2009, EBITDA contribution to be between A$4.7 million and A$5.0 million. Gemini provides medical administrative services in Australia. It offers medical services at mine sites and rural towns; provides occupational health services to corporate clients; and operates medical centers.

Symbion Health / Primary Health Care

In March 2008, Primary Health Care acquired the remaining 80% stake in Symbion Health for A$2.12 billion. Symbion Health provides diagnostic and wellness services. The company offers pathology services in biochemistry, microbiology, immunology, serology, haematology, cytology, and histopathology for general practitioners, specialists, public and private hospitals, clinical trials, and veterinary testing.

Appendix B - Comparable Listed Companies

A brief description of each of the companies listed in Section 6 is outlined below:

Dental:

1300Smiles

1300SMILES provides dental and practice management services in Australia. The company enables the delivery of dental services to patients by providing the use of surgeries, practice management, and other services to self-employed dentists who carry on their own dental practices. It also offers services in the areas of marketing, administration, billing and collections, and facilities certification and licensing to participating dentists and provides support staff, equipment, and facilities, as well as sources various consumable goods. The company serves dentists ranging from new graduates to experienced dental professionals. As at 7 June 2013, it owned and operated approximately 25 dental practices.

Birner Dental Management Services

Birner Dental Management Services provides business services to dental group practices in the USA. It offers general dentistry services, including crowns and bridges, fillings and aesthetic procedures. The company also provides cleanings and periodontal services and specialty dental services. As at March 2013, the company operated 65 dental offices under the PERFECT TEETH name.

Audiology:

Amplifon

Amplifon engages in the distribution, fitting, adaptation, and personalisation of hearing systems for those suffering from hearing disabilities worldwide. It also sells accessories, such as batteries, consumables, and spare parts, as well as distributes biomedical equipment. The company sells its products through a network of approximately 3,200 points of sale, 2,400 service centers, and 1,600 network affiliates under the Amplifon, Beter Horen, Miracle Ear, Sonus, National Hearing Care, Bay Audiology, Maxtone, and Elite Hearing Network brands.

Diagnostics and Rehabilitation:

Capitol Health

Capitol Health provides medical diagnostic imaging services in Australia. The company's services include general x-ray, magnetic resonance imaging, ultrasound, mammography, orthopantomogram, doppler, echocardiography, computer tomography (**CT**), CT angiography, cone beam CT, nuclear medicine, bone densitometry, and fluoroscopy. It operates a network of 48 facilities in Victoria.

Sonic Healthcare

Sonic Healthcare provides medical diagnostic services, and administrative services and facilities to medical practitioners. The company operates through Pathology, Radiology, and Other segments. It offers pathology/clinical laboratory services, and radiology and diagnostic imaging services to medical practitioners, hospitals, community health services, and their collective patients. The company also operates a network of primary care medical centers and independent practitioner network, as well as other healthcare businesses. It has operations in Australia, New Zealand, the United Kingdom, the United States, Germany, Switzerland, Belgium, and Ireland.

Vision Eye Institute

Vision Eye Institute provides ophthalmic services in Australia. The company's services include specialist care in the areas of cataract, refractive, glaucoma, cornea, medical and surgical retina, and oculoplastics. It operates 18 consulting clinics, eight day surgery facilities, and seven refractive surgery facilities in Victoria, New South Wales, and Queensland.

Primary Health Care

Primary Health Care, a medical centre operator, provides various services and facilities to general practitioners, specialists, and other health care providers in Australia. It operates through Medical Centres, Pathology, Imaging, and Health Technology segments. The company offers diagnostic imaging services, such as general X-ray, fluoroscopic screening, OPG, mammography, bone densitometry, angiography, ultrasound, doppler ultrasound, echocardiography, CT scanning, MRI scanning, and nuclear medicine; pathology services in various disciplines, including biochemistry, microbiology, virology, serology, haematology, immunology, cytology, histopathology, molecular biology, and genetics; and Medicare/bulk billing services. It also operates medical centres that provide general practice, treatment room, radiology, pathology collection, physiotherapy, chemist, licensed day surgeries, and allied health services; and specialist GP, skin cancer, work cover occupational health care, dental, and eye clinics. In addition, the company develops, sells, and supports health-related software products. It operates 87 medical centres, 87 pathology labs, 782 collection centres, and 161 diagnostic imaging sites.

Quest Diagnostics

Quest Diagnostics provides diagnostic testing information services in the United States and internationally. The company operates in two businesses, Diagnostic Information Services and Diagnostic Solutions. The Diagnostic Information Services business offers clinical testing services, including routine testing, gene-based and esoteric testing, anatomic pathology services, and drugs-of-abuse testing, as well as related services and insights. The Diagnostic Solutions business provides risk assessment services for the life insurance industry; clinical testing services for new drugs, vaccines, and medical devices; and clinical connectivity and data management solutions for healthcare organizations and clinicians to improve patient care and medical practice, as well as develops, manufactures, and markets diagnostics products.

Laboratory Corporation of America

Laboratory Corporation of America operates as an independent clinical laboratory company worldwide. It offers a range of clinical laboratory tests, including blood chemistry analyses, urinalyses, blood cell counts, thyroid tests, Pap tests, HIV tests, HCV tests, microbiology cultures and procedures, and alcohol and other substance-abuse tests. It operates a network of 50 primary laboratories and approximately 1,800 patient service centers, as well as branches and STAT laboratories in the United States.

Other Australasian Healthcare:

EBOS

EBOS Group supplies a range of healthcare products in Australasia. The company provides product management solutions to pharmaceutical companies; clinical trial logistics and depot services; and third party distribution and logistics solutions. It is also involved in the distribution systems, customer services, accounting, IT systems, and electronic ordering of products on behalf of pharmaceutical and healthcare suppliers and manufacturers; and wholesale and distribution of ethical, OTC, medical, and consumer products to pharmacies, and public and private hospitals. In addition, the company is engaged in the sales and marketing of a range of healthcare products for consumer, primary care, hospital, aged care, and international markets; and retail pharmacy brand ownership, sales of branded products, and operation of pharmacy support and management systems. Further, it wholesales, markets, and sells veterinary products; and distributes and retails animal healthcare products, pet accessories, and premium foods.

Appendix C - Valuation Methodology Descriptions

1. Capitalisation of Earnings

Capitalisation of earnings or cash flows is most appropriate for businesses with a substantial operating history and a consistent earnings trend that is sufficiently stable to be indicative of ongoing earnings potential. This methodology is not particularly suitable for start-up businesses, businesses with an erratic earnings pattern or businesses that have unusual expenditure requirements. This methodology involves capitalising the earnings or cash flows of a business at a multiple that reflects the risks of the business and the stream of income that it generates. These multiples can be applied to a number of different earnings or cash flow measures including EBITDA, EBITA, EBIT or net profit after tax. These are referred to respectively as EBITDA multiples, EBITA multiples, EBIT multiples and price earnings multiples. Price earnings multiples are commonly used in the context of the share market. EBITDA, EBITA and EBIT multiples are more commonly used in valuing whole businesses for acquisition purposes where gearing is in the control of the acquirer.

Where an ongoing business with relatively stable and predictable earnings is being valued Grant Samuel uses capitalised earnings or operating cash flows as a primary reference point. Application of this valuation methodology involves:

- estimation of earnings or cash flow levels that a purchaser would utilise for valuation purposes having regard to historical and forecast operating results, non-recurring items of income and expenditure and known factors likely to impact on operating performance; and
- consideration of an appropriate capitalisation multiple having regard to the market rating of comparable businesses, the extent and nature of competition, the time period of earnings used, the quality of earnings, growth prospects and relative business risk.

The choice between the parameters is usually not critical and should give a similar result. All are commonly used in the valuation of industrial businesses. EBITDA can be preferable if depreciation or non-cash charges distort earnings or make comparisons between companies difficult but care needs to be exercised to ensure that proper account is taken of factors such as the level of capital expenditure needed for the business and whether or not any amortisation costs also relate to ongoing cash costs. EBITA avoids the distortions of goodwill amortisation. EBIT can better adjust for differences in relative capital intensity.

Determination of the appropriate earnings multiple is usually the most judgemental element of a valuation. Definitive or even indicative offers for a particular asset or business can provide the most reliable support for selection of an appropriate earnings multiple. In the absence of meaningful offers, it is necessary to infer the appropriate multiple from other evidence.

The usual approach is to determine the multiple that other buyers have been prepared to pay for similar businesses in the recent past. However, each transaction will be the product of a unique combination of factors. A pattern may emerge from transactions involving similar businesses with sales typically taking place at prices corresponding to earnings multiples within a particular range. This range will generally reflect the growth prospects and risks of those businesses. Mature, low growth businesses will, in the absence of other factors, attract lower multiples than those businesses with potential for significant growth in earnings.

An alternative approach used in valuing businesses is to review the multiples at which shares in listed companies in the same industry sector trade on the share market. This gives an indication of the price levels at which portfolio investors are prepared to invest in these businesses. Share prices reflect trades in small parcels of shares (portfolio interests) rather than whole companies and it is necessary to adjust for this factor.

The analysis of comparable transactions and share market prices for comparable companies will not always lead to an obvious conclusion as to which multiple or range of multiples will apply. There will often be a wide spread of multiples and the application of judgement becomes critical. Moreover, it is necessary to consider the particular attributes of the business being valued and decide whether it warrants a higher or lower multiple than the comparable companies. This assessment is essentially a judgement.

2. Discounted Cash Flow

Discounting of projected cash flows has a strong theoretical basis. It is the most commonly used method for valuation in a number of industries, and for the valuation of start-up projects where earnings during the first few years can be negative. DCF valuations involve calculating the net present value of projected cash flows. This methodology is able to explicitly capture the effect of a turnaround in the business, the ramp up to maturity or significant changes expected in capital expenditure patterns. The cash flows are discounted using a discount rate, which reflects the risk associated with the cash flow stream. Considerable judgement is required in estimating future cash flows and it is generally necessary to place great reliance on medium to long-term projections prepared by management. The discount rate is also not an observable number and must be inferred from other data (usually only historical). None of this data is particularly reliable so estimates of the discount rate necessity involve a substantial element of judgment. In addition, even where cash flow forecasts are available the terminal or continuing value is usually a high proportion of value. Accordingly, the multiple used in assessing this terminal value becomes the critical determinant in the valuation (i.e. it is a “de facto” cash flow capitalisation valuation). The net present value is typically extremely sensitive to relatively small changes in underlying assumptions, few of which are capable of being predicted with accuracy, particularly beyond the first two or three years. The arbitrary assumptions that need to be made and the width of any value range mean the results are often not meaningful or reliable. Notwithstanding these limitations, DCF valuations are commonly used and can at least play a role in providing a check on alternative methodologies, not least because explicit and relatively detailed assumptions need to be made as to the expected future performance of the business operations.

3. Realisation of Assets

Valuations based on an estimate of the aggregate proceeds from an orderly realisation of assets are commonly applied to businesses that are not going concerns. They effectively reflect liquidation values and typically attribute no value to any goodwill associated with ongoing trading. Such an approach is not appropriate in Abano’s case.

4. Industry Rules of Thumb

Industry rules of thumb are commonly used in some industries. These are generally used by a valuer as a “cross check” of the result determined by a capitalised earnings valuation or by discounting cash flows, but in some industries rules of thumb can be the primary basis on which buyers determine prices. In any event, it should be recognised that rules of thumb are usually relatively crude and prone to misinterpretation.

Appendix D - Interpretation of Multiples

Earnings multiples are normally benchmarked against two primary sets of reference points:

- the multiples implied by the share prices of listed peer group companies; and
- the multiples implied by the prices paid in acquisitions of other companies in the same industry.

In interpreting and evaluating such data it is necessary to recognise that:

- multiples based on listed company share prices do not include a premium for control and are therefore often (but not always) less than multiples that would apply to acquisitions of controlling interests in similar companies. However, while the premium paid to obtain control in takeovers is observable (typically in the range 20-35%) it is inappropriate to simply add a premium to listed multiples. The premium for control is an outcome of the valuation process, not a determinant of value. Premiums are paid for reasons that vary from case to case and may be substantial due to synergy or other benefits available to the acquirer. In other situations premiums may be minimal or even zero. There are transactions where no corporate buyer is prepared to pay a price in excess of the prices paid by share market investors;
- acquisition multiples from comparable transactions are therefore usually seen as a better guide when valuing 100% of a business but the data tends to be less transparent and information on forecast earnings is often unavailable;
- the analysis will give a range of outcomes from which averages or medians can be determined but it is not appropriate to simply apply such measures to the company being valued. The most important part of valuation is to evaluate the attributes of the specific company being valued and to distinguish it from its peers so as to form a judgement as to where on the spectrum it belongs;
- acquisition multiples are a product of the economic and other circumstances at the time of the transaction. However, each transaction will be the product of a unique combination of factors, including:
  - economic factors (e.g. economic growth, inflation, interest rates) affecting the markets in which the company operates;
  - strategic attractions of the business – its particular strengths and weaknesses, market position of the business, strength of competition and barriers to entry;
  - the company's own performance and growth trajectory;
  - rationalisation or synergy benefits available to the acquirer;
  - the structural and regulatory framework;
  - investment and share market conditions at the time, and
  - the number of competing buyers for a business;
- acquisitions and listed companies in different countries can be analysed for comparative purposes, but it is necessary to give consideration to differences in overall share market levels and rating between countries, economic factors (economic growth, inflation, interest rates), market structure (competition etc) and the regulatory framework. It is not appropriate to adjust multiples in a mechanistic way for differences in interest rates or share market levels;
- acquisition multiples are based on the target's earnings but the price paid normally reflects the fact that there were cost reduction opportunities or synergies available to the acquirer (at least if the acquirer is a "trade buyer" with existing businesses in the same or a related industry). If the target's earnings were adjusted for these cost reductions and/or synergies the effective multiple paid by the acquirer would be lower than that calculated on the target's earnings;
- while EBITDA multiples are commonly used benchmarks they are an incomplete measure of cash flow. The appropriate multiple is affected by, among other things, the level of capital expenditure (and working capital investment) relative to EBITDA. In this respect:

- EBIT multiples can in some circumstances be a better guide because (assuming depreciation is a reasonable proxy for capital expenditure) they effectively adjust for relative capital intensity and present a better approximation of free cash flow. However, capital expenditure is lumpy and depreciation expense may not be a reliable guide. In addition, there can be differences between companies in the basis of calculation of depreciation; and
- businesses that generate higher EBITDA margins than their peer group companies will, all other things being equal, warrant higher EBITDA multiples because free cash flow will, in relative terms, be higher (as capital expenditure is a smaller proportion of earnings).

Appendix E – Qualifications, Declarations and Consents

1. Qualifications

The Grant Samuel group of companies provides corporate advisory services in relation to mergers and acquisitions, capital raisings, corporate restructuring and financial matters generally. One of the primary activities of Grant Samuel is the preparation of corporate and business valuations and the provision of independent advice and expert's reports in connection with mergers and acquisitions, takeovers and capital reconstructions. Since inception in 1988, Grant Samuel and its related companies have prepared more than 400 public expert and appraisal reports.

The persons responsible for preparing this report on behalf of Grant Samuel are Michael Lorimer, BCA, Simon Cotter, BCom, MAppFin, F Fin, and Jake Sheehan, BCom (Hons). Each has a significant number of years of experience in relevant corporate advisory matters.

2. Limitations and Reliance on Information

Grant Samuel's opinion is based on economic, market and other conditions prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time. The report is based upon financial and other information provided by the directors, management and advisers of Abano. Grant Samuel has considered and relied upon this information. Grant Samuel believes that the information provided was reliable, complete and not misleading and has no reason to believe that any material facts have been withheld.

The information provided has been evaluated through analysis, enquiry, and review for the purposes of forming an opinion as to the underlying value of Abano. However in such assignments time is limited and Grant Samuel does not warrant that these inquiries have identified or verified all of the matters which an audit, extensive examination or "due diligence" investigation might disclose.

Grant Samuel has not undertaken a due diligence investigation of Abano. In addition, preparation of this report does not imply that Grant Samuel has audited in any way the management accounts or other records of Abano. It is understood that, where appropriate, the accounting information provided to Grant Samuel was prepared in accordance with generally accepted accounting practice and in a manner consistent with methods of accounting used in previous years.

An important part of the information base used in forming an opinion of the kind expressed in this report is the opinions and judgement of the management of the relevant enterprise. That information was also evaluated through analysis, enquiry and review to the extent practicable. However, it must be recognised that such information is not always capable of external verification or validation.

The information provided to Grant Samuel included projections of future revenues, expenditures, profits and cash flows of Abano prepared by the management of Abano. Grant Samuel has used these projections for the purpose of its analysis. Grant Samuel has assumed that these projections were prepared accurately, fairly and honestly based on information available to management at the time and within the practical constraints and limitations of such projections. It is assumed that the projections do not reflect any material bias, either positive or negative. Grant Samuel has no reason to believe otherwise.

However, Grant Samuel in no way guarantees or otherwise warrants the achievability of the projections of future profits and cash flows for Abano. Projections are inherently uncertain. Projections are predictions of future events that cannot be assured and are necessarily based on assumptions, many of which are beyond the control of management. The actual future results may be significantly more or less favourable.

To the extent that there are legal issues relating to assets, properties, or business interests or issues relating to compliance with applicable laws, regulations, and policies, Grant Samuel assumes no responsibility and offers no legal opinion or interpretation on any issue. In forming its opinion, Grant Samuel has assumed, except as specifically advised to it, that:

- the title to all such assets, properties, or business interests purportedly owned by Abano is good and marketable in all material respects, and there are no material adverse interests, encumbrances, engineering, environmental, zoning, planning or related issues associated with these interests, and that the subject assets, properties, or business interests are free and clear of any and all material liens, encumbrances or encroachments;
- there is compliance in all material respects with all applicable national and local regulations and laws, as well as the policies of all applicable regulators other than as publicly disclosed, and that all required licences, rights, consents, or legislative or administrative authorities from any government, private entity, regulatory agency or organisation have been or can be obtained or renewed for the operation of the business of Abano, other than as publicly disclosed;
- various contracts in place and their respective contractual terms will continue and will not be materially and adversely influenced by potential changes in control; and
- there are no material legal proceedings regarding the business, assets or affairs of Abano, other than as publicly disclosed.

3. Disclaimers

It is not intended that this report should be used or relied upon for any purpose other than as an expression of Grant Samuel's opinion as to the valuation of Abano. Grant Samuel expressly disclaims any liability to any Abano security holder who relies or purports to rely on the report for any other purpose and to any other party who relies or purports to rely on the report for any purpose whatsoever.

This report has been prepared by Grant Samuel with care and diligence and the statements and opinions given by Grant Samuel in this report are given in good faith and in the belief on reasonable grounds that such statements and opinions are correct and not misleading. However, no responsibility is accepted by Grant Samuel or any of its officers or employees for errors or omissions however arising in the preparation of this report, provided that this shall not absolve Grant Samuel from liability arising from an opinion expressed recklessly or in bad faith.

4. Independence

Grant Samuel and its related entities do not have any shareholding in or other relationship or conflict of interest with Abano or HIL that could affect its ability to provide an unbiased opinion. Grant Samuel will receive a fixed fee for the preparation of this report. Grant Samuel will receive no other benefit for the preparation of this report.

5. Information

Grant Samuel has obtained all the information that it believes is desirable for the purposes of preparing this report, including all relevant information which is or should have been known to any Director of Abano and made available to the Directors.

5.1 Publicly Available Information

- Abano's Annual Reports for the years ending 31 May 2010 – 2013;
- Various broker's reports on Abano and its competitors;
- IBIS World Industry Report on Dental Services in Australia, published in October 2013;
- Annual accounts for competitors; and
- Accounts and data from Capital IQ.

5.2 Non Public Information

- Abano's Group and business unit forecasts for the financial year ending 31 May 2014;
- Abano's Budgets and Business Plans for the year ending 31 May 2014;
- Abano's Board Papers and Minutes for the last 12 months; and
- Various Confidential Reports and Papers.

6. Declarations

Abano has agreed that it will indemnify Grant Samuel and its employees and officers in respect of any liability suffered or incurred as a result of or in connection with the preparation of the report. This indemnity will not apply in respect of the proportion of any liability found by a Court to be primarily caused by any conduct involving gross negligence or wilful misconduct by Grant Samuel. Abano has also agreed to indemnify Grant Samuel and its employees and officers for time spent and reasonable legal costs and expenses incurred in relation to any inquiry or proceeding initiated by any person. Where Grant Samuel or its employees and officers are found to have been grossly negligent or engaged in wilful misconduct Grant Samuel shall bear the proportion of such costs caused by its action. Any claims by Abano are limited to an amount equal to the fees paid to Grant Samuel.

Advance drafts of this report were provided to the directors and executive management of Abano. Certain changes were made to the drafting of the report as a result of the circulation of the draft report. There was no alteration to the methodology, evaluation or conclusions as a result of issuing the drafts.

7. Consents

Grant Samuel consents to the issuing of this report in the form to be sent to security holders of Abano. Neither the whole nor any part of this report nor any reference thereto may be included in any other document without the prior written consent of Grant Samuel as to the form and context in which it appears.