IDH Finance plc

Quarterly Financial Report
3 months ended 30 September 2020

Contents

Presentation of financial data

This report summarises consolidated financial and operating data derived from the unaudited consolidated financial statements of Turnstone Midco 2 Limited, the parent company of IDH Finance plc. The summary financial information provided has been derived from our records for the three month accounting period to 30 September 2020 which are maintained in accordance with International Financial Reporting Standards as adopted by the European Union ('IFRS'). The interim results are not necessarily indicative of the results to be expected for the full year.

We have presented certain non-IFRS information in this quarterly report. This information includes "EBITDA" and other measures derived therefrom, including EBITDA before non-underlying items, which represents earnings before interest, tax, depreciation, amortisation, impairment and other non-underlying items. Our management believes metrics derived from EBITDA are meaningful for investors because they provide an analysis of our operating results, profitability and ability to service debt. Measures derived from EBITDA are also used by management to track our business development, establish operational and strategic targets and make important business decisions. EBITDA is the measure commonly used by investors and other interested parties in our industry.

Comparative information has been provided for the quarter ended 30 September 2019. IFRS 16 "Leases" was adopted with effect from 1 April 2019 and therefore both the quarter ending 30 September 2020 and quarter ending 30 September 2019 are reported under this standard. "Adjusted EBITDA", which represents EBITDA before non-underlying items adjusted to include rental and other lease charges, has been presented to provide comparable information to previous periods.

Information presented in this report and described as like-for-like excludes any practices or other operating units trading in the group in the current financial year or the year ended 31 March 2020 but not in both.

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

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Summary highlights

- The three months ended 30 September 2020 ("Q2 FY21") saw dentistry start to re-open following the Covid-19 lockdown, albeit with significant restrictions in place.
- {my}dentist practices re-opened for routine treatments from 15 June 2020 and for aerosol generating procedures ("AGP") from 1 July 2020.
- During Q2 FY21, Public Health England required a one hour fallow period after an AGP before the surgery could be used for the next patient. This fallow period resulted in a reduction in the number of patients a practice could treat in a given time period, for example per day and therefore restricted productivity. A significant amount of clinician time continued to be allocated to telephone triage activities during the quarter.
- NHS bodies across the UK have continued to make normal monthly contract payments.
- The Q2 FY21 financial results have been prepared based on the Group's assessment of NHS contract management terms and an interpretation of how this affects the contract's performance measures.
- The abatement to reflect lower variable costs of 16.75% applied to the contract in England from 1 April 2020 to 8 June 2020, while practices were closed to routine treatment, did not apply during Q2.
- Revenue for the three months ended 30 September 2020 was £139.2m, which was 8.3% lower than the three months ended 30 September 2019 ("Q2 FY20").
- Q2 FY21 gross margin percentage of 43.4% an increase of 0.8% from 42.6% in Q2 FY20.
- Reported EBITDA before non-underlying items for the three months ended 30 September 2020 of £21.4m (15.4% of revenue).
- EBITDA before non-underlying items for the three months ended 30 September 2020 less charges for rental and other previously categorised operating leases ("Adjusted EBITDA") of £18.1m (13.0% of revenue) is 13.7% ahead of the three months to 30 September 2019 (£15.9m, 10.5% of revenue).
- EBITDA in Q2 FY21 includes £4.1m that could have been recognised in Q1 FY21. This includes the impact of a 2.5% NHS contract rate improvement and a release of certain accruals for fees.
- LTM Adjusted EBITDA of £52.3m and estimated pro-forma LTM Adjusted EBITDA of £52.0m.
- There were 596 total practices in the estate at 30 September 2020 (30 September 2019: 604).
- Cash generated from operations before movements in working capital increased by £0.8m to £19.5m. Cash generated from operations was significantly up at £48.6m (Q2 FY20: £27.4m) due to the working capital inflow from NHS contract payments. Cash also benefitted from a decrease in inventory at DD, a decrease in debtors at {my}dentist due to the collection of co-pay patient contributions following the restart of face-to-face appointments and the receipt of funds from the Coronavirus Job Retention Scheme ("CJRS").
- Capital expenditure for the quarter ended 30 September 2020 was £3.7m including £1.5m of growth capital expenditure and 0.8m of IT expenditure.
- Repayment of the £73.2m drawn from the Super Senior Revolving Credit Facility ("SSRCF") plus another £5.0m to reduce the drawn SSRCF to £20.0m at 30 September 2020.
- Cash and cash equivalents at 30 September 2020 of £18.9m and net debt was £550.2m.

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

Overview

Integrated Dental Holdings ("IDH") announces its results for the quarter ended 30 September 2020.

IDH is the leading provider of dental services in the United Kingdom and, through {my}dentist, operates a network of 596 dental practices across England, Scotland, Wales and Northern Ireland.

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

The group's DD business is a leading provider of materials, equipment and services to healthcare businesses across the UK and Ireland.

Commentary on results

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

The key performance indicators for the group for the four quarters from 1 July 2019 to 30 June 2020 and for the quarter ended 30 September 2020 are provided below:

Key performance indicators	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021
Revenue (£m)	151.7	155.5	154.2	94.2	139.2
EBITDA calculated under IFRS 16 (£m)	19.4	19.4	22.4	2.8	21.4
Rent adjustment (£m)	3.5	3.7	3.5	3.2	3.3
Adjusted EBITDA (£m) (1)	15.9	15.8	18.9	(0.5)	18.1
LTM Adjusted EBITDA (£m)	59.7	60.1	62.1	50.2	52.3
Operating profit/(loss) (£m)	1.9	0.6	(83.4)	(14.0)	0.7
NHS dentistry services as a percentage of dental practice revenue	73.5%	73.8%	76.2%	99.0%	86.0%
Private dentistry services as a percentage of dental practice revenue	26.5%	26.2%	23.8%	1.0%	14.0%
Non-dental practice revenue as a percentage of group revenue	22.2%	23.3%	23.5%	28.3%	26.2%
Gross profit margin %	42.6%	42.2%	43.3%	40.4%	43.4%
Adjusted overheads as a percentage of revenue	32.4%	32.4%	31.2%	41.4%	30.8%
Adjusted EBITDA margin %	10.5%	10.2%	12.3%	-0.5%	13.0%
Number of dental practices	604	601	597	597	596
Capital expenditure (£m)	6.7	7.0	5.1	5.5	3.7
Estimated pro-forma adjusted EBITDA (£m)	60.2	60.3	61.3	49.7	52.0

(1) "Adjusted EBITDA" shows EBITDA for each quarter after the deduction of rental charges.

UDA and like for like performance measures have not been reported this quarter as the format of the current reporting framework includes telephone triage appointments.

Impact of IFRS 16

In order to provide comparability between periods, the table below sets out the impact on reported EBITDA for each period if IFRS 16 had been adopted at that time.

	Q1 £'000	Q2 £'000	Q3 £'000	Q4 £'000	Full year £'000
FY18					
Reported EBITDA	**12,108**	**13,507**	**14,698**	**14,802**	**55,115**
Lease adjustment	3,864	3,762	3,698	3,620	14,944
EBITDA under IFRS 16	15,972	17,269	18,396	18,422	70,059
FY19					
Reported EBITDA	**12,220**	**13,616**	**15,369**	**16,900**	**58,105**
Lease adjustment	3,700	3,757	3,749	3,610	14,816
EBITDA under IFRS 16	15,920	17,373	19,118	20,510	72,921
FY20					
Adjusted EBITDA	11,490	15,939	15,792	18,900	62,121
Lease adjustment	3,497	3,497	3,656	3,468	14,118
Reported EBITDA IFRS 16	**14,987**	**19,436**	**19,448**	**22,368**	**76,239**
FY21					
Adjusted EBITDA	(466)	18,120			
Lease adjustment	3,231	3,269			
Reported EBITDA IFRS 16	**2,765**	**21,389**			

Practice numbers

One dental practice was closed during the quarter. In total, {my}dentist operated 596 practices at 30 September 2020 (30 September 2020: 604).

Revenue

Group revenue decreased by £12.6m, or 8.3%, from £151.7m for the three month period ended 30 September 2019 ("Q2 FY20") to £139.2m for the three month period to 30 September 2020 ("Q2 FY21").

{my}dentist revenue decreased by £15.4m from £118.0m to £102.7m. Private revenue decreased by £16.9m from £31.2m to £14.3m due to the continued effect of the Covid-19 outbreak. Despite {my}dentist practices opening from 15th June 2020 and AGP's re-commencing on 1st July 2020, the requirement for a fallow period between appointments of 1 hour (15 minutes for non-AGP) has impacted face-to-face activity levels. NHS revenue reflects the continued payment of the contract during Q2 whilst also considering performance obligations that will be required for the full NHS contract year. The contract was subject to a 16.25% abatement in England for the period from 1 April to 8 June 2020 to reflect variable cost savings made by practices during the lockdown period, however this reduced to 0% from 8 June as routine activities re-started. This reduction was put in place to compensate for the significant increase in the cost of personal protective equipment ("PPE"), both in £ value for specific items and in cost per treatment due to the additional items required. A variable cost adjustment to historic activity or contract of between 10-20% continues to be applied in Scotland, Wales and Northern Ireland.

Year to date NHS revenue has been updated to reflect an annual contract uplift of 2.5%. Q2 includes c£1.4m of revenue that would have recognised in Q1 if the uplift had been announced at that time.

Revenue from DD increased by £7.2m from £40.9m in Q2 FY20 to £48.0m in Q2 FY21, due to the sale of bulk orders of PPE into public sector organisations including the NHS, the Police service and local authorities along with a strong return in the Beauty sector when settings reopened and growth in the Republic of Ireland, driven by a strong dental practice return due to the absence of a fallow period in Ireland.

Group revenue	Q2 FY21 £'000	Q2 FY20 £'000	Movement £'000
NHS revenue	80,946	79,155	1,791
Private revenue	13,149	28,664	(15,515)
Dental practices	94,095	107,819	(13,724)
Orthodontics	8,363	10,155	(1,792)
Practice disposals	170	3	167
Non-dental practice revenue	36	71	(35)
Total {my}dentist revenue	102,664	118,048	(15,384)
DD revenue	48,045	40,864	7,181
Eliminations	(11,559)	(7,203)	(4,356)
Total revenue	139,150	151,709	(12,559)

NHS revenue

NHS revenue for the quarter ended 30 September 2020 was £88.3m, an increase of £1.6m or 1.8% from £86.7m in Q2 FY20.

NHS revenue generated from base dental practices, excluding disposals and orthodontic revenue, increased from £79.2m to £80.9m.

Private revenue

Private revenue for the quarter ended 30 September 2020 was £14.3m, 54.2% lower than £31.2m for the equivalent period in FY20.

Private revenue excluding disposals and orthodontic revenue decreased by £15.5m. Patient demand for appointments was strong during Q2, however the fallow time regulations restricted appointment volumes and therefore availability.

Cost of sales

Gross margin for the quarter ended 30 September 2020 was 43.4%, a 0.8% increase from 42.6% in the quarter ended 30 September 2019. {my}dentist gross margin for Q2 FY21 was 52.1% (Q2 FY20: 48.1%) and gross margin in DD was 17.4% (Q2 FY20: 23.1%).

Cost of sales decreased by £8.3m, or 9.5%, from £87.0m to £78.8m for the quarter ended 30 September 2020 reflecting lower levels of private dentistry and reduced laboratory costs. This has been offset by an increase in materials as the cost of PPE increased significantly. The cost per treatment has also increased significantly due to the level of equipment required under re-start guidelines and an increase in the number of changes required in certain equipment during a session.

Overheads

Overheads, including administrative expenses, distribution costs, amortisation and impairment of intangible assets, depreciation, grant income and other non-underlying items were £60.1m for Q2 FY21, a decrease of £2.9m from £63.0m in the three months to 30 September 2019, largely due to lower operational costs partially offset by disposal charges recognised on practices due for sale or closure of £2.4m. 4 practices have been reclassified as held for sale this quarter.

An impairment of £0.1m was recognised in Q2 FY21 relating to permanent contract cuts agreed with the NHS in this quarter (Q2 FY20: £0.4m).

Overheads excluding amortisation and impairment of intangible assets, depreciation, grant income and other non-underlying items were £39.6m, £6.2m lower than Q2 FY20 (£45.7m).

The group's largest overhead is the cost of staff working in dental practices, in operational management and at the divisional support centres. In the quarter ended 30 September 2020, staff costs were £31.4m, £2.5m lower than Q2 FY20 due to the continued support received from central government under the CJRS. Under the terms of the NHS contract support, NHS dental providers were allowed to furlough staff in proportion to the level of private treatment they offered. For {my}dentist this equated to around 23% of the practice workforce.

Dental equipment and practice property maintenance costs for Q2 FY21 were £2.3m, £0.2m lower than Q2 FY20. As practices were not operating at full capacity during the quarter, savings were made on a number of variable costs such as waste collection, marketing, utilities, stationery and travel.

The calculation of Adjusted EBITDA includes the recognition of rental and other operating lease charges of £3.3m in overheads for Q2 FY21.

Other operating income

Other operating income for the three months ended 30 September 2020 was £0.5m. Other operating income includes contractual support received from Scottish Health Boards to assist in the upkeep of our Scottish dental practices (based on the proportion of NHS treatment carried out by each practice) and property rental income.

Other losses

Other losses include net realised and unrealised foreign exchange losses arising in DD, principally in relation to foreign exchange forward contracts. These contracts are used to hedge the cash impact of a proportion of the cost of goods purchased in Euros and US Dollars.

EBITDA before non-underlying items

Earnings before interest, tax, depreciation, amortisation and non-underlying items for the three months ended 30 September 2020 was £21.4m, £2.0m up on Q2 FY20 of £19.4m.

Adjusted EBITDA, earnings before interest, tax, depreciation, amortisation and non-underlying items less rental charges, for the three months ended 30 September 2020 was £18.1m, £2.2m up on Q2 FY20 of £15.9m.

Adjusted EBITDA for the quarter in {my}dentist was £17.3m, £1.8m up on Q2 FY20 of £15.5m. DD was down by £0.2m (8.9%) to £1.6m, but up to £3.3m for the year to the end of September (YTD FY20: £2.6m, +25.0%).

Non-underlying items

Other non-underlying items of £1.9m principally relate to one-off legal, professional and restructuring costs.

Year to date performance

In the six months to 30 September 2020, revenue decreased by 19.7% from £290.7m to £233.3m as a result of the impact of the Covid-19 lockdown in Q1 and the dental sector re-start from mid-June. DD revenue year to date is flat year-on-year as the management team replaced lower revenues from {my}dentist and other dental practices by pivoting activity to the import and sale of bulk orders of PPE to the public sector.

Group revenue	YTD FY21	YTD FY20	Movement
	£'000	£'000	£'000
NHS revenue	142,577	155,120	(12,543)
Private revenue	13,653	55,210	(41,557)
Dental practices	156,230	210,330	(54,100)
Orthodontics	13,629	18,918	(5,289)
Practice disposals	318	2	316
Non-dental practice revenue	18	118	(100)
Total {my}dentist revenue	170,195	229,368	(59,173)
DD revenue	75,955	75,834	121
Eliminations	(12,810)	(14,468)	1,658
Total revenue	233,340	290,734	(57,394)

EBITDA before exceptional items for the year to date was £24.2m (Q2 FY20: £34.4m). Adjusted EBITDA before exceptional items for the year to date was £17.7m (Q2 FY20: £27.4m).

Estimated pro-forma LTM Adjusted EBITDA

	£'000
LTM Adjusted EBITDA before exceptional items at 30 September 20	52,346
EBITDA from disposals completed by September - add back trading (profits)/losses in LTM EBITDA	(53)
EBITDA from practices earmarked for disposal at September - add back trading (profits)/losses in LTM EBITDA	(328)
Estimated pro-forma Adjusted EBITDA	51,965

Estimated pro-forma LTM Adjusted EBITDA has been calculated following the methodology set out in the IDH Finance plc Offering Memorandum dated 22 July 2016.

The estimated Adjusted EBITDA for acquired businesses are management estimates for the annual EBITDA of an acquired business less actual results consolidated in LTM EBITDA from the date of acquisition. The EBITDA from disposals adds back trading (profits)/losses incurred in the last twelve months in practices closed or disposed of in the period from 1 October 2019 to 30 September 2020.

Finance costs

Finance costs of £12.2m in Q2 FY21 include £9.8m in respect of the £275.0m Senior Secured Fixed Rate Notes, £150.0m Senior Secured Floating Rate Notes and £130.0m Second Lien Notes. £1.3m relates to interest payable in respect of the Super Senior Revolving Credit Facility (“SSRCF”) and the amortisation of debt arrangement fees. A further £1.1m relates to unwinding of the discount on lease liabilities following the adoption of IFRS 16.

Debt and liquidity

At 30 September 2020, net debt was £550.2m, compared to £569.9m at 31 March 2020. This decrease principally reflects the repayment of £78.2m on the SSRCF offset by a decrease in cash for the period and the amortisation of facility arrangement fees and issue discounts.

Net cash flow for the quarter was an outflow of £52.7m. This arises from a cash inflow from operating activities of £48.6m, £3.7m capital expenditure, £15.0m for the servicing of finance, £4.4m of lease payments (included in financing activities following the adoption of IFRS 16) and £78.2m repayment of the SSRCF.

Working capital movements

Cash generated from operations increased from £27.4m in Q2 FY20 to £48.6m in Q2 FY21.

The cash inflow from operating activities results from a cash inflow from UDA contract payments not recognised in revenue, a decrease in inventories at DD and a decrease in debtors at {my}dentist due to the increase in NHS patient co-pay contributions and the receipt of payments under the CJRS.

Capital expenditure

Capital expenditure for Q2 FY21 was £3.7m (Q2 FY20: £6.7m). This includes “maintenance” capital expenditure of £1.4m, growth capital expenditure of £1.5m and IT capital expenditure of £0.8m. Due to the suspension of normal trading in Q1 and the re-start of trading in Q2, some growth capital expenditure projects have been delayed.

During Q3 FY21, £1.25m has been invested across the dental practice estate to provide air filtration equipment in all practices. Following installation of the units, the fallow time between appointments can be reduced to 10 minutes for an AGP from 1 November. This will improve productivity in practice and improve access for patients.

Risk factors

The latest opportunity and risk position of the group is detailed in the Annual Report to Bondholders for Turnstone Midco 2 Limited for the year ended 31 March 2020.

Post Balance Sheet Events

On 22 October 2020, Fabio Giuseppetti and Aqib Kadar were appointed to the Board of Turnstone Equityco 1 Limited, the parent company of IDH Finance plc and Turnstone Midco 2 Limited, as representatives of Palamon Capital Partners.

Following the announcement by the Prime Minister on 31 October of a national lockdown between 4 November and 2 December, the government confirmed that primary care dental practices would remain open for face-to-face treatment during this time. Travel was permitted for healthcare including access to healthcare.

On 23 November 2020, the group completed the acquisition of a dental practice in Armagh, Northern Ireland.

Turnstone Midco 2 Limited

Condensed interim consolidated financial statements – Unaudited

Quarter ended 30 September 2020

Consolidated income statement (unaudited)

For the quarter ended 30 September 2020

	Note	Q2 FY21 £'000	Q2 FY20 £'000
Revenue	4	139,150	151,709
Cost of sales		(78,758)	(87,029)
Gross profit	4	60,392	64,680
Distribution costs		(4,256)	(4,865)
Administrative expenses		(55,837)	(58,113)
Other operating income		548	466
Other losses		(134)	(271)
Operating profit	4	713	1,897
EBITDA before non-underlying items	4	21,389	19,436
Amortisation of intangible assets		(7,550)	(7,633)
Depreciation		(8,688)	(8,530)
Amortisation of government grant income		9	13
Impairment of intangible assets		(56)	(361)
Impairment of non-current assets reclassified as held for sale and profit/(loss) on closure or disposal of dental practices		(2,400)	244
Remeasurement of lease commitments		43	-
Value of employee services arising from shares granted		-	(269)
Other non-underlying items		(1,900)	(732)
Foreign exchange losses		(134)	(271)
Operating profit	4	713	1,897
Finance costs		(12,232)	(12,198)
Finance income		1	15
Net finance costs		(12,231)	(12,183)
Loss before income tax	4	(11,518)	(10,286)
Income tax credit	5	2,879	1,632
Loss for the period		(8,639)	(8,654)
Attributable to:			
Owners of the parent		(8,639)	(8,654)
Non-controlling interests		-	-
		(8,639)	(8,654)

There are no items of other comprehensive income during the current or previous period other than those stated above and therefore no separate statement of comprehensive income has been presented.

Consolidated income statement (unaudited)

For the six months ended 30 September 2020

	Note	YTD FY21 £'000	YTD FY20 £'000
Revenue	5	233,340	290,734
Cost of sales		(134,859)	(165,654)
Gross profit	5	98,481	125,080
Distribution costs		(7,351)	(9,363)
Administrative expenses		(105,491)	(117,300)
Other operating income		957	886
Other gains		167	55
Operating loss	5	(13,237)	(642)
EBITDA before non-underlying items	5	24,154	34,423
Amortisation of intangible assets		(15,103)	(15,272)
Depreciation		(17,143)	(17,084)
Amortisation of government grant income		22	26
Impairment of intangible assets		(231)	(864)
Impairment of non-current assets reclassified as held for sale and profit/(loss) on closure or disposal of dental practices		(2,465)	339
Remeasurement of lease commitments		43	-
Value of employee services arising from shares granted		-	(538)
Other non-underlying items		(2,681)	(1,727)
Foreign exchange gains		167	55
Operating loss	5	(13,237)	(642)
Finance costs		(24,682)	(24,273)
Finance income		4	23
Net finance costs		(24,678)	(24,250)
Loss before income tax	5	(37,915)	(24,892)
Income tax credit	6	7,156	3,955
Loss for the period		(30,759)	(20,937)
Attributable to:			
Owners of the parent		(30,759)	(20,937)
Non-controlling interests		-	-
		(30,759)	(20,937)

There are no items of other comprehensive income during the current or previous period other than those stated above and therefore no separate statement of comprehensive income has been presented.

Consolidated balance sheet (unaudited)

At 30 September 2020

	Note	Q2 FY21 £'000	*Q2 FY20 £'000
Non-current assets			
Goodwill		142,063	224,286
Other intangible assets		278,327	314,830
Property, plant and equipment		186,859	187,876
		607,249	726,992
Current assets			
Inventories		31,726	29,317
Trade and other receivables		56,134	51,102
Current income tax		40	40
Derivative financial instruments		111	-
Cash and cash equivalents		18,908	14,050
		106,919	94,509
Assets classified as held for sale		51	-
Total assets		714,219	821,501
Equity attributable to the owners of the parent			
Share capital		410,961	410,961
Accumulated losses		(575,755)	(426,025)
		(164,794)	(15,064)
Non-controlling interest		-	-
Total equity		(164,794)	(15,064)
Non-current liabilities			
Borrowings	*7*	569,105	571,477
Other payables	*6*	82	169
Deferred income tax liabilities		12,371	6,770
Post employment benefits		370	593
Provisions		4,356	7,060
Other liabilities - leases		82,584	74,657
Total non-current liabilities		668,868	660,726
Current liabilities			
Trade and other payables	*6*	195,018	160,190
Provisions		602	1,348
Other liabilities - leases		14,525	14,190
Derivative financial instruments		-	111
Total current liabilities		210,145	175,839
Total liabilities		879,013	836,565
Total equity and liabilities		714,219	821,501

*In Q2 FY20 (and in previous periods), the deferred tax liabilities and assets were shown gross and have been amended to be disclosed on a net basis in Q2 FY20 and Q2 FY21. While this does impact on several financial statement line items on the balance sheet, the overall impact on net assets is nil.

Consolidated statement of changes in equity (unaudited)

For the quarter ended 30 September 2020

Q2 FY21	Share capital	Retained earnings	Total equity attributable to the owners of the parent	Non-controlling interest	Total equity
	£'000	£'000	£'000	£'000	£'000
Balance at beginning of the period	410,961	(567,116)	(156,155)	-	(156,155)
Comprehensive expense for the period					
Total comprehensive expense for the period	-	(8,639)	(8,639)	-	(8,639)
Balance at end of the period	410,961	(575,755)	(164,794)	-	(164,794)

Q2 FY20	Share capital	Retained earnings	Total equity attributable to the owners of the parent	Non-controlling interest	Total equity
	£'000	£'000	£'000	£'000	£'000
Balance at beginning of the period	410,961	(417,594)	(6,633)	-	(6,633)
Comprehensive expense for the period					
Total comprehensive expense for the period	-	(8,654)	(8,654)	-	(8,654)
Transactions with owners recognised directly in equity					
Value of employee services arising from shares granted to directors and employees	-	269	269	-	269
Deferred tax in relation to the above	-	(46)	(46)	-	(46)
Total transactions with owners	-	223	223	-	223
Balance at end of the period	410,961	(426,025)	(15,064)	-	(15,064)

Consolidated statement of changes in equity (unaudited)

For the six months ended 30 September 2020

YTD FY21

	Share capital	Retained earnings	Total equity attributable to the owners of the parent	Non-controlling interest	Total equity
	£'000	£'000	£'000	£'000	£'000
Balance at beginning of the period	410,961	(544,996)	(134,035)	-	(134,035)
Comprehensive expense for the period					
Total comprehensive expense for the period	-	(30,759)	(30,759)	-	(30,759)
Balance at end of the period	410,961	(575,755)	(164,794)	-	(164,794)

YTD FY20

	Share capital	Retained earnings	Total equity attributable to the owners of the parent	Non-controlling interest	Total equity
	£'000	£'000	£'000	£'000	£'000
Balance at beginning of the period	410,961	(405,535)	5,426	-	5,426
Comprehensive expense for the period					
Total comprehensive expense for the period	-	(20,937)	(20,937)	-	(20,937)
Transactions with owners recognised directly in equity					
Value of employee services arising from shares granted to directors and employees	-	538	538	-	538
Deferred tax in relation to the above	-	(91)	(91)	-	(91)
Total transactions with owners	-	447	447	-	447
Balance at end of the period	410,961	(426,025)	(15,064)	-	(15,064)

Consolidated cash flow statement (unaudited)

For the quarter ended 30 September 2020

	Q2 FY21 £'000	Q2 FY20 £'000
Cash flows from operating activities		
Loss before taxation	(11,518)	(10,286)
Depreciation of property, plant and equipment	8,688	8,530
Amortisation of government grants	(9)	(13)
Amortisation of intangible assets	7,550	7,633
Finance costs	12,232	12,198
Finance income	(1)	(15)
Loss/(profit) on business and asset disposals	2,400	(198)
Impairment of intangible assets	56	361
Remeasurement of lease commitments	(43)	-
Net unrealised foreign exchange losses	200	290
Value of employee services arising from shares granted to directors and employees	-	269
Pension contributions	(16)	-
Cash generated from operations before movements in working capital	19,539	18,769
Changes in working capital		
Movement in inventories	6,248	246
Movement in trade and other receivables	4,440	(7,477)
Movement in trade and other payables	18,450	16,320
Movement in provisions	(125)	(498)
Net cash inflow from operating activities	48,552	27,360
Cash flows from investing activities		
Acquisitions (net of cash acquired)	(25)	(28)
Costs on business and asset disposals	(33)	(10)
Purchase of property, plant and equipment	(3,681)	(6,702)
Proceeds from business and asset disposals	-	12
Interest received	1	15
Net cash outflow from investing activities	(3,738)	(6,713)
Cash flows from financing activities		
Repayment of bank loans	(78,200)	-
Bank and bond interest paid	(14,968)	(14,627)
Principal element of lease payment	(3,280)	(2,296)
Interest element of lease payment	(1,108)	(1,201)
Net cash outflow from financing activities	(97,556)	(18,124)
Net (decrease)/increase in cash and cash equivalents	(52,742)	2,523
Cash and cash equivalents at the beginning of the period	71,650	11,527
Cash and cash equivalents at the end of the period	18,908	14,050

Consolidated cash flow statement (unaudited)

For the six months ended 30 September 2020

	YTD FY21 £'000	YTD FY20 £'000
Cash flows from operating activities		
Loss before taxation	(37,915)	(24,892)
Depreciation of property, plant and equipment	17,143	17,084
Amortisation of government grants	(22)	(26)
Amortisation of intangible assets	15,103	15,272
Finance costs	24,682	24,273
Finance income	(4)	(23)
Loss/(profit) on business and asset disposals	2,465	(307)
Impairment of intangible assets	231	864
Remeasurement of lease commitments	(43)	-
Net unrealised foreign exchange losses	178	(368)
Value of employee services arising from shares granted to directors and employees	-	538
Pension contributions	(32)	-
Cash generated from operations before movements in working capital	21,786	32,415
Changes in working capital		
Movement in inventories	(6,747)	(917)
Movement in trade and other receivables	(4,932)	(11,601)
Movement in trade and other payables	48,043	29,238
Movement in provisions	(131)	(886)
Net cash inflow from operating activities	58,019	48,249
Cash flows from investing activities		
Acquisitions (net of cash acquired)	(94)	(360)
Costs on business and asset disposals	(44)	(17)
Purchase of property, plant and equipment	(9,184)	(15,147)
Proceeds from business and asset disposals	-	26
Interest received	4	23
Net cash outflow from investing activities	(9,318)	(15,475)
Cash flows from financing activities		
Drawdown of bank loans	-	5,000
Repayment of bank loans	(78,200)	(5,000)
Bank and bond interest paid	(21,327)	(20,591)
Principal element of lease payment	(4,133)	(4,751)
Interest element of lease payment	(2,196)	(2,243)
Net cash outflow from financing activities	(105,856)	(27,585)
Net (decrease)/increase in cash and cash equivalents	(57,155)	5,189
Cash and cash equivalents at the beginning of the period	76,063	8,861
Cash and cash equivalents at the end of the period	18,908	14,050

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

For the quarter ended 30 September 2020

	Q2 FY21 £'000	Q2 FY20 £'000
(Decrease)/increase in cash for the period	(52,742)	2,523
Repayment of bank loans	78,200	-
Total cash movement in net debt	25,458	2,523
Amortisation of loan arrangement fees	(663)	(649)
Total non-cash movement in net debt	(663)	(649)
Total movement in net debt	24,795	1,874
Net debt brought forward	(574,992)	(559,301)
Net debt carried forward	(550,197)	(557,427)

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

For the six months ended 30 September 2020

	YTD FY21 £'000	YTD FY20 £'000
(Decrease)/increase in cash for the period	(57,155)	5,189
Drawdown of bank loans	-	(5,000)
Repayment of bank loans	78,200	5,000
Total cash movement in net debt	21,045	5,189
Amortisation of loan arrangement fees	(1,328)	(1,300)
Total non-cash movement in net debt	(1,328)	(1,300)
Total movement in net debt	19,717	3,889
Net debt brought forward	(569,914)	(561,316)
Net debt carried forward	(550,197)	(557,427)

Notes

Forming part of the financial statements

1 General information and basis of preparation

Turnstone Midco 2 Limited (the “company”, and with its subsidiaries, the “group”) is a company registered in England. It is the parent company of IDH Finance plc (the “issuer”). The company is 100% owned by Turnstone Midco 1 Limited and the ultimate UK parent company is Turnstone Equityco 1 Limited.

The condensed interim consolidated financial statements (the ‘interim financial statements’) of the company have been prepared for the quarter ended 30 September 2020. The results for the year to date represent the group’s trading from 1 April 2020 to 30 September 2020. Comparative results are provided for the quarter ended 30 September 2019 and for the six months ended 30 September 2019.

The interim financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (‘IFRS’) and, specifically, IAS 34 ‘Interim Financial Reporting’. The interim financial statements are presented in thousands of pounds sterling (£’000’s) except where otherwise stated. Pounds sterling is the functional currency of both Turnstone Midco 2 Limited and Turnstone Equityco 1 Limited.

The content of this report does not constitute statutory financial statements and is unaudited.

These interim financial statements do not include all of the disclosure information required in annual financial statements prepared in accordance with IFRS and should therefore be read in conjunction with the consolidated financial statements of Turnstone Midco 2 Limited and Turnstone Equityco 1 Limited for the year ended 31 March 2020, both of which are available from our website, www.mydentist.co.uk.

2 Significant accounting policies

The interim financial statements have been prepared on the basis of the accounting policies set out in the 2020 annual report and consolidated financial statements for Turnstone Midco 2 Limited and Turnstone Equityco 1 Limited.

a) Basis of consolidation

Subsidiaries

The group controls an entity when the group has power over that entity, is exposed to or has rights to variable returns from its involvement with the entity and has the ability to affect these returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases. The group has applied IFRS 10 – Consolidated Financial Statements (‘IFRS 10’) retrospectively in accordance with the transitional provisions of IFRS 10.

Partnerships

Certain members of the group management team act as partners on behalf of group companies in a number of dental practice partnerships. These partnerships are held on trust on behalf of a number of group companies. All profits arising from partnership activity are transferred to a group trading company.

As a result, the group considers that it has control of these partnerships and consequently the results of the partnerships are consolidated into the group’s financial statements. The partnerships are accounted for in accordance with the group’s accounting policies.

Notes

Forming part of the financial statements

Transactions eliminated on consolidation

Intragroup balances, and any gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial information. Losses are eliminated in the same way as gains, but only to the extent that there is no evidence of impairment.

b) Foreign currency translation

Foreign currency transactions are translated into the functional currency of each subsidiary or partnership using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions, including realised gains and losses arising from foreign exchange forward contracts and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement within other gains or losses.

Unrealised gains and losses arising from derivative financial instruments used to hedge against movements in foreign exchange rates (principally foreign exchange forward contracts) are recognised in the income statement within other gains or losses.

c) Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The fair value of consideration of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the group in exchange for control over the acquiree. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 – Business Combinations (Revised) ('IFRS 3') are recognised at their fair values at the acquisition date. All acquisition costs are expensed as incurred and included within administrative expenses.

Any contingent consideration to be transferred by the group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration are recognised at fair value through profit or loss.

Notes

Forming part of the financial statements

d) Intangible assets

Goodwill

Goodwill represents the excess of the fair value of consideration paid on acquisition of a business over the fair value of assets, including any intangible assets identified, liabilities and contingent liabilities acquired.

Goodwill is tested for impairment at least annually.

On disposal of a subsidiary, the attributable net book value of goodwill, based on relative fair value, is included in the determination of the profit or loss on disposal.

Externally acquired intangible assets

Externally acquired intangible assets are initially recognised at cost and subsequently amortised on a straight-line basis over their useful economic lives. The amortisation expense is included within administrative expenses in the income statement.

Intangible assets are recognised on business combinations if they are separable from the acquired entity or give rise to other contractual or legal rights. The amounts ascribed to such intangibles are determined by using appropriate valuation techniques.

The significant intangible assets recognised by the group, their estimated useful economic lives and the methods used to determine the cost of intangible assets acquired through business combinations are as follows:

Intangible asset	**Estimated useful economic life**	**Valuation method**
Contractual arrangements and relationships	20 years	Estimated discounted cash flow
Customer relationships	10-20 years	Estimated discounted cash flow
Brands and trademarks	15 years	Estimated royalty stream if the rights were to be licensed

Contractual arrangements reflect long term, fixed income contracts with the NHS for the delivery of dentistry services. These contracts specify targeted annual volumes of units of dental activity ('UDAs') for a contracted dental practice or entity. The majority of these contracts have no fixed term and will roll over indefinitely provided that certain performance targets are achieved. The intangible assets arising from these contractual arrangements are amortised over a period of 20 years to reflect the potential for future changes to government policy in this area.

Notes

Forming part of the financial statements

e) Impairment of non-financial assets

The carrying amounts of the group's non-financial assets, other than inventories and deferred income tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated at the same time in each period.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to dispose. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the 'cash-generating unit' or 'CGU'). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to CGU's. Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGU's to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Internally the groups of CGUs comprising the DD division and the {my}dentist division are commonly referred to as the two CGUs, when management are discussing goodwill and intangible assets.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised through the income statement. Impairment losses recognised in respect of CGU's are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

f) Derivative financial instruments

The group's activities expose it to the financial risks resulting from fluctuations in interest rates and foreign exchange rates.

From time-to-time, the group may use derivative financial instruments (interest rate swaps) to hedge a proportion of its exposure to floating interest rate fluctuations. Foreign exchange forward contracts are used to hedge a proportion of the group's exposure to fluctuations in foreign exchange rates.

The group does not hedge account for any derivative financial instruments.

The use of financial derivatives is governed by the group's policies approved by the Board of Directors, which provide written principles in the use of financial derivatives consistent with the group's risk management strategy. The group does not use derivative financial instruments for speculative purposes.

Notes

Forming part of the financial statements

g) Revenue

Revenue represents the income received in the ordinary course of business for dentistry or other goods or services provided to the extent that the group has completed the specific performance obligations and has therefore obtained the right to consideration. Amounts are stated net of discounts, returns and value added taxes.

Revenue derived from NHS contracts in England and Wales is recognised on the volume of dental activity delivered in the financial year. Amounts received from the NHS in advance of dental activity delivered are held on the balance sheet within accruals. Revenue from all private dental work and NHS patients in Scotland and Northern Ireland is recognised based upon the completion of each piece of treatment carried out, with the exception of private orthodontic treatment, which is recognised based on the stage of completion reached during the course of treatment. Revenue from NHS orthodontic treatments is recognised at the point where a claim can be submitted for payment.

During the Covid-19 outbreak, certain conditions related to the volume of activity required for contract terms to be met have been temporarily lifted and revenue has been recognised based on an interpretation of NHS guidance relating to the performance obligations required for the contract year.

Revenue from the sale of goods by DD is recognised upon despatch and revenue generated from the installation or repair of equipment, or from other services, is recognised upon completion of the service.

Deferred income

Where the group receives an amount upfront in respect of future income streams, the value of the receipt is amortised over the period of the contract as the services are delivered and the unexpired element is disclosed in trade and other payables as deferred income.

h) Leases

The group's lease arrangements are principally short leasehold properties, including the group's dental practice estate, and leased motor vehicles and other equipment. The lease liability and corresponding right of use asset arising from a lease are initially measured on a present value basis.

The lease liability is initially measured at the present value of the remaining lease payments, discounted using the incremental cost of borrowing at the date of initial application. Subsequent to initial measurement, the liability is reduced for payments made and increased for interest. It is re-measured to reflect any modification, with a corresponding adjustment reflected in the right of use asset.

The right of use asset is initially measured at cost which comprises the amount of the initial measurement of the lease liability, adjusted for any lease payments made at or before the commencement date less any lease incentives received plus any initial direct costs incurred and restoration costs. The right of use asset is depreciated on a straight line basis over the lease term.

The group has elected to account for short term leases and low value assets using practical expedients. Instead of recognising a right of use asset and lease liability, the payments in relation to these are recognised in the consolidated income statement on a straight line basis over the lease term.

There are no material lease agreements under which the group is a lessor.

Notes

Forming part of the financial statements

i) Income tax

Income tax for the accounting periods presented comprises current and deferred income tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current income tax is the expected tax payable or refundable on the taxable income or loss for the year, based upon the tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred income tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of other assets or liabilities that affect neither accounting nor taxable profit; nor differences relating to investments in subsidiaries to the extent that they are unlikely to reverse in the foreseeable future. The amount of deferred income tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred income tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred income tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except for on deferred income tax liabilities where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future.

3 Critical accounting judgements and estimates

The preparation of the group’s consolidated financial information under IFRS requires the Directors to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities. Estimates and judgements are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The Directors consider that the following estimates and judgements are likely to have the most significant effect on the amounts recognised in the consolidated financial information.

Notes

Forming part of the financial statements

3 Critical accounting judgements and estimates *(continued)*

(a) Critical judgements

IFRS 16 Leases

Judgements made in calculating the initial impact of adoption of IFRS 16 include determining the lease term where extension or termination options exist. In such instances, all facts and circumstances that may create an economic incentive to exercise an extension option, or not exercise a termination option, have been considered to determine the lease term. Extension periods (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated), for example where negotiations are in progress with landlords. Lease terms are only limited to the termination option where a decision has been taken and actioned to cease operations at the location. There is a related estimate in the calculation of the lease liability relating to the discount rate, which is based on the incremental borrowing rate.

Assets held for sale

Assets held for sale are measured at the lower of their carrying amount and fair value less costs for sale. Accordingly, judgement is required in assessing the expected recoverable amount. Furthermore, in reclassifying these assets as held for sale, management have judged that a sale within a period of one year is highly probable. As at 30 September 2020, assets held for sale amount to £0.1m (Q2 FY20: £nil).

(b) Critical estimates

Impairment of goodwill and other intangibles

Determining whether goodwill or other intangible assets are impaired requires an annual estimation of the fair value or value in use of the CGU's to which goodwill and other intangible assets have been allocated. These calculations require the group to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate present value. Impairment reviews are conducted annually at 31 March each year, and at interim reporting dates if management consider that indicators of potential impairment exist.

No indicators of impairment to the {my}dentist or DD CGU's have been identified by management during Q2 FY21. An impairment has been recognised for £0.1m relating to permanent NHS contract cuts agreed with the NHS.

Valuation of intangibles acquired in business combinations

Determining the fair value of contractual arrangements and customer relationships acquired in business combinations requires estimation of the value of the cash flows related to those arrangements or relationships and a suitable discount rate in order to calculate the present value.

Determining the fair value of brands or trademarks acquired in business combinations requires estimation of the discounted royalty payments that would have to be paid to acquire the brand or trademark if it had not been acquired as part of a business combination.

Notes

Forming part of the financial statements

4 Segment reporting

The Directors have determined the operating segments based on the operating reports reviewed by both the Board of Directors and the Executive Management Team that are used to facilitate both performance and strategic decision making. The Executive Management Team is considered to be the chief operating decision maker in accordance with the requirements of IFRS 8 – Operating Segments.

The Executive Management Team considers the business to be split into two main operating segments being {my}dentist and DD.

Through {my}dentist, the group is the leading provider of dental services in the United Kingdom. {my}dentist owns and manages a national chain of dental practices with 596 sites at 30 September 2020 (30 September 2019: 604).

DD, which principally comprises DD Products and Services Limited (formerly Billericay Dental Supply Co. Limited), along with a number of smaller businesses, provides a range of products and services to the dental and wider healthcare sectors, including to {my}dentist. Sales to {my}dentist are carried out on an arms-length basis.

All services are provided in the United Kingdom.

Notes

Forming part of the financial statements

4 Segment reporting *(continued)*

Q2 FY21	{my}dentist	DD	Group costs and intra-segment eliminations	Total
	£'000	£'000	£'000	£'000
Revenue				
NHS dentistry	88,306	-	-	88,306
Private dentistry	14,322	-	-	14,322
Non-dental practice revenue	36	48,045	(11,559)	36,522
Total revenue	102,664	48,045	(11,559)	139,150
Gross profit	53,501	8,339	(1,448)	60,392
Gross margin	*52.1%*	*17.4%*		*43.4%*
Overheads	(33,697)	(6,504)	650	(39,551)
Overheads % of revenue	*32.8%*	*13.5%*		*28.4%*
Other income	548	-	-	548
EBITDA before non-underlying items	20,352	1,835	(798)	21,389
EBITDA margin	*19.8%*	*3.8%*		*15.4%*
Amortisation of intangible assets	(6,698)	(852)	-	(7,550)
Depreciation	(8,133)	(701)	146	(8,688)
Amortisation of government grant income	9	-	-	9
Impairment of intangible assets	(56)	-	-	(56)
Impairment of non-current assets reclassified as held for sale and loss on closure or disposal of dental practices	(2,400)	-	-	(2,400)
Remeasurement of lease commitments	43	-	-	43
Other non-underlying items	(1,847)	(53)	-	(1,900)
Foreign exchange losses	-	(134)	-	(134)
Segment operating profit/(loss)	1,270	95	(652)	713
Net finance costs				(12,231)
Loss before income tax				(11,518)
Segment assets	607,905	111,648	(5,334)	714,219
Segment liabilities	(285,257)	(144,303)	(449,453)	(879,013)
Additions in the period				
Goodwill	-	-	-	-
Property, plant and equipment	4,881	187	(214)	4,854

Notes

Forming part of the financial statements

4 Segment reporting *(continued)*

In order to provide comparability with previous periods, the table below shows the impact of rental and other lease charges and the Adjusted EBITDA for each segment.

Q2 FY21	{my}dentist	DD	Group costs and intra-segment eliminations	Total
	£'000	£'000	£'000	£'000
EBITDA before non-underlying items	20,352	1,835	(798)	21,389
Rental charges	(3,023)	(246)	-	(3,269)
Adjusted EBITDA	17,329	1,589	(798)	18,120
EBITDA margin %	*16.9%*	*3.3%*	*6.9%*	*13.0%*

Within the {my}dentist segment, Adjusted EBITDA is derived from activities in general dental practices and {my}orthodontist.

{my}dentist Q2 FY21	General Dental Practices	Orthodontics	Disposals	Central Costs	{my}dentist
	£'000	£'000	£'000	£'000	£'000
Revenue					
NHS dentistry	80,946	7,211	149	-	88,306
Private dentistry	13,149	1,152	21	-	14,322
Non-dental practice revenue	36	-	-	-	36
Total revenue	94,131	8,363	170	-	102,664
Gross profit	49,046	4,400	55	-	53,501
Gross margin	*52.1%*	*52.6%*			*52.1%*
Overheads	(24,885)	(1,636)	(94)	(7,082)	(33,697)
Overheads % of revenue	*26.4%*	*19.6%*			*32.8%*
Other income	548	-	-	-	548
EBITDA before non-underlying items	24,709	2,764	(39)	(7,082)	20,352
EBITDA margin	*26.2%*	*33.1%*			*19.8%*
Rent adjustment	(2,718)	(239)	(12)	(54)	(3,023)
Adjusted EBITDA	21,991	2,525	(51)	(7,136)	17,329
EBITDA margin	*23.4%*	*30.2%*			*16.9%*

Notes

Forming part of the financial statements

4 Segment reporting *(continued)*

Q2 FY20	{my}dentist £'000	DD £'000	Group costs and intra-segment eliminations £'000	Total £'000
Revenue				
NHS dentistry	86,732	-	-	86,732
Private dentistry	31,245	-	-	31,245
Non-dental practice revenue	71	40,864	(7,203)	33,732
Total revenue	118,048	40,864	(7,203)	151,709
Gross profit	56,832	9,438	(1,590)	64,680
Gross margin	*48.1%*	*23.1%*		*42.6%*
Overheads	(38,640)	(7,337)	267	(45,710)
Overheads % of revenue	*32.7%*	*18.0%*		*30.1%*
Other income	466	-	-	466
EBITDA before non-underlying items	18,658	2,101	(1,323)	19,436
EBITDA margin	*15.8%*	*5.1%*		*12.8%*
Amortisation of intangible assets	(6,781)	(852)	-	(7,633)
Depreciation	(7,957)	(695)	122	(8,530)
Amortisation of government grant income	13	-	-	13
Impairment of intangible assets	(361)	-	-	(361)
Impairment of non-current assets reclassified as held for sale and profit on closure or disposal of dental practices	244	-	-	244
Value of employee services arising from shares granted	-	-	(269)	(269)
Other non-underlying items	(538)	(194)	-	(732)
Foreign exchange losses	-	(271)	-	(271)
Segment operating profit/(loss)	3,278	89	(1,470)	1,897
Net finance costs				(12,183)
Loss before income tax				(10,286)
Segment assets	719,365	106,985	(4,849)	821,501
Segment liabilities	(233,131)	(134,634)	(468,800)	(836,565)
Additions in the period				
Goodwill	-	-	-	-
Property, plant and equipment	6,877	734	(439)	7,172

Notes

Forming part of the financial statements

4 Segment reporting *(continued)*

In order to provide comparability with previous periods, the table below shows the impact of rental and other lease charges and the Adjusted EBITDA for each segment.

Q2 FY20	{my}dentist	DD	Group costs and intra-segment eliminations	Total
	£'000	£'000	£'000	£'000
EBITDA before non-underlying items	18,658	2,101	(1,323)	19,436
Rental charges	(3,140)	(357)	-	(3,497)
Adjusted EBITDA	15,518	1,744	(1,323)	15,939
EBITDA margin %	*13.1%*	*4.3%*	*18.4%*	*10.5%*

Within the {my}dentist segment, Adjusted EBITDA is derived from activities in general dental practices and {my}orthodontist.

{my}dentist Q2 2020	General Dental Practices	Orthodontics	Disposals	Central Costs	{my}dentist
	£'000	£'000	£'000	£'000	£'000
Revenue					
NHS dentistry	79,155	7,573	4	-	86,732
Private dentistry	28,664	2,582	(1)	-	31,245
Non-dental practice revenue	71	-	-	-	71
Total revenue	107,890	10,155	3	-	118,048
Gross profit	51,965	4,828	39	-	56,832
Gross margin	*48.2%*	*47.5%*	*1141.1%*		*48.1%*
Overheads	(29,778)	(2,172)	(23)	(6,667)	(38,640)
Overheads % of revenue	*27.6%*	*21.4%*	*674.6%*		*32.7%*
Other income	466	-	-	-	466
EBITDA before non-underlying items	22,653	2,656	16	(6,667)	18,658
EBITDA margin	*21.0%*	*26.2%*	*466.6%*		*15.8%*
Rent adjustment	(2,861)	(270)	(6)	(3)	(3,140)
Adjusted EBITDA	19,792	2,386	10	(6,670)	15,518
EBITDA margin	*18.3%*	*23.5%*	*290.6%*		*13.1%*

Notes

Forming part of the financial statements

4 Segment reporting *(continued)*

YTD FY21	{my}dentist £'000	DD £'000	Group costs and intra-segment eliminations £'000	Total £'000
Revenue				
NHS dentistry	155,186	-	-	155,186
Private dentistry	14,991	-	-	14,991
Non-dental practice revenue	18	75,955	(12,810)	63,163
Total revenue	170,195	75,955	(12,810)	233,340
Gross profit	84,983	15,591	(2,093)	98,481
Gross margin	*49.9%*	*20.5%*		*42.2%*
Overheads	(63,752)	(11,836)	304	(75,284)
Overheads % of revenue	*37.5%*	*15.6%*		*32.3%*
Other income	957	-	-	957
EBITDA before non-underlying items	22,188	3,755	(1,789)	24,154
EBITDA margin	*13.0%*	*4.9%*		*10.4%*
Amortisation of intangible assets	(13,399)	(1,704)	-	(15,103)
Depreciation	(15,994)	(1,436)	287	(17,143)
Amortisation of government grant income	22	-	-	22
Impairment of intangible assets	(231)	-	-	(231)
Impairment of non-current assets reclassified as held for sale and profit/(loss) on closure or disposal of dental practices	(2,465)	-	-	(2,465)
Remeasurement of lease commitments	43	-	-	43
Other non-underlying items	(2,532)	(149)	-	(2,681)
Foreign exchange gains	-	167	-	167
Segment operating profit/(loss)	(12,368)	633	(1,502)	(13,237)
Net finance costs				(24,678)
Loss before income tax				(37,915)
Segment assets	607,905	111,648	(5,334)	714,219
Segment liabilities	(285,257)	(144,303)	(449,453)	(879,013)

Notes

Forming part of the financial statements

4 Segment reporting *(continued)*

In order to provide comparability with previous periods, the table below shows the impact of rental and other lease charges and the Adjusted EBITDA for each segment.

YTD FY21	{my}dentist	DD	Group costs and intra-segment eliminations	Total
	£'000	£'000	£'000	£'000
EBITDA before non-underlying items	22,188	3,755	(1,789)	24,154
Rental charges	(6,008)	(492)	-	(6,500)
Adjusted EBITDA	16,180	3,263	(1,789)	17,654
EBITDA margin %	*9.5%*	*4.3%*	*14.0%*	*7.6%*

Within the {my}dentist segment, Adjusted EBITDA is derived from activities in general dental practices and {my}orthodontist.

{my}dentist YTD FY21	General Dental Practices	Orthodontics	Disposals	Central Costs	{my}dentist
	£'000	£'000	£'000	£'000	£'000
Revenue					
NHS dentistry	142,577	12,350	259	-	155,186
Private dentistry	13,653	1,279	59	-	14,991
Non-dental practice revenue	18	-	-	-	18
Total revenue	156,248	13,629	318	-	170,195
Gross profit	77,876	6,974	133	-	84,983
Gross margin	*49.8%*	*51.2%*			*49.9%*
Overheads	(46,848)	(3,242)	(139)	(13,523)	(63,752)
Overheads % of revenue	*30.0%*	*23.8%*			*37.5%*
Other income	957	-	-	-	957
EBITDA before non-underlying items	31,985	3,732	(6)	(13,523)	22,188
EBITDA margin	*20.5%*	*27.4%*			*13.0%*
Rent adjustment	(5,402)	(464)	(24)	(118)	(6,008)
Adjusted EBITDA	26,583	3,268	(30)	(13,641)	16,180
EBITDA margin	*17.0%*	*24.0%*			*9.5%*

Notes

Forming part of the financial statements

4 Segment reporting *(continued)*

YTD FY20	{my}dentist £'000	DD £'000	Group costs and intra-segment eliminations £'000	Total £'000
Revenue				
NHS dentistry	169,217	-	-	169,217
Private dentistry	60,033	-	-	60,033
Non-dental practice revenue	118	75,834	(14,468)	61,484
Total revenue	229,368	75,834	(14,468)	290,734
Gross profit	109,529	18,482	(2,931)	125,080
Gross margin	*47.8%*	*24.4%*		*43.0%*
Overheads	(76,630)	(15,246)	333	(91,543)
Overheads % of revenue	*33.4%*	*20.1%*		*31.5%*
Other income	886	-	-	886
EBITDA before non-underlying items	33,785	3,236	(2,598)	34,423
EBITDA margin	*14.7%*	*4.3%*		*11.8%*
Amortisation of intangible assets	(13,568)	(1,704)	-	(15,272)
Depreciation	(15,899)	(1,419)	234	(17,084)
Amortisation of government grant income	26	-	-	26
Impairment of intangible assets	(864)	-	-	(864)
Impairment of non-current assets reclassified as held for sale and profit/(loss) on closure or disposal of dental practices	339	-	-	339
Value of employee services arising from shares granted	-	-	(538)	(538)
Other non-underlying items	(892)	(835)	-	(1,727)
Foreign exchange gains	-	55	-	55
Segment operating profit/(loss)	2,927	(667)	(2,902)	(642)
Net finance costs				(24,250)
Loss before income tax				(24,892)
Segment assets	719,365	106,985	(4,849)	821,501
Segment liabilities	(233,131)	(134,634)	(468,800)	(836,565)
Additions in the period				
Goodwill	-	-	-	-
Property, plant and equipment	14,684	1,890	(840)	15,734

Notes

Forming part of the financial statements

4 Segment reporting *(continued)*

In order to provide comparability with previous periods, the table below shows the impact of rental and other lease charges and the Adjusted EBITDA for each segment.

YTD FY20	{my}dentist	DD	Group costs and intra-segment eliminations	Total
	£'000	£'000	£'000	£'000
EBITDA before non-underlying items	33,785	3,236	(2,598)	34,423
Rental charges	(6,369)	(625)	-	(6,994)
Adjusted EBITDA	27,416	2,611	(2,598)	27,429
EBITDA margin %	*12.0%*	*3.4%*	*18.0%*	*9.4%*

Within the {my}dentist segment, Adjusted EBITDA is derived from activities in general dental practices and {my}orthodontist.

{my}dentist YTD FY20	General Dental Practices	Orthodontics	Disposals	Central Costs	{my}dentist
	£'000	£'000	£'000	£'000	£'000
Revenue					
NHS dentistry	155,120	14,094	3	-	169,217
Private dentistry	55,210	4,824	(1)	-	60,033
Non-dental practice revenue	118	-	-	-	118
Total revenue	210,448	18,918	2	-	229,368
Gross profit	100,653	8,848	28	-	109,529
Gross margin	*47.8%*	*46.8%*	*1226.5%*		*47.8%*
Overheads	(58,722)	(4,194)	(92)	(13,622)	(76,630)
Overheads % of revenue	*27.9%*	*22.2%*	*4067.6%*		*33.4%*
Other income	878	-	8	-	886
EBITDA before non-underlying items	42,809	4,654	(56)	(13,622)	33,785
EBITDA margin	*20.3%*	*24.6%*	*-2487.4%*		*14.7%*
Rent adjustment	(5,830)	(510)	(10)	(19)	(6,369)
Adjusted EBITDA	36,979	4,144	(66)	(13,641)	27,416
EBITDA margin	*17.6%*	*21.9%*	*-2929.5%*		*12.0%*

Notes

Forming part of the financial statements

5 Taxation

	Q2 FY21 £'000	Q2 FY20 £'000
Current income tax		
Current income tax for the period	-	-
Total current income tax	-	-
Deferred income tax		
Origin and reversal of temporary differences	(2,879)	(1,632)
Total deferred income tax	(2,879)	(1,632)
Total income tax credit	(2,879)	(1,632)

	YTD FY21 £'000	YTD FY20 £'000
Current income tax		
Current income tax for the period	-	-
Total current income tax	-	-
Deferred income tax		
Origin and reversal of temporary differences	(7,156)	(3,955)
Total deferred income tax	(7,156)	(3,955)
Total income tax credit	(7,156)	(3,955)

A reduction in the main rate of corporation tax to 17% from 1 April 2020 was substantively enacted on 15 September 2016. In the Spring Budget 2020, the Government announced that the UK corporation tax rate would remain at 19% (effective 1 April 2020) rather than reducing to 17%. This was substantively enacted on 17 March 2020. This will increase the company's future current tax charge accordingly. The deferred tax liability at 30 September 2020 has been calculated at 19% (30 September 2019: 17%).

There has been no change in the circumstances of the three uncertain tax positions described in the March 2020 accounts.

Notes

Forming part of the financial statements

6 Trade and other payables

	Q2 FY21 £'000	Q2 FY20 £'000
Current		
Trade payables	21,400	25,559
Accruals and deferred income	166,903	129,383
Other taxation and social security	4,666	2,984
Contingent consideration	2,015	2,214
Government grants	34	50
	195,018	160,190
Non-current		
Contingent consideration	49	104
Government grants	33	65
	82	169

Contingent consideration is due to the vendors of individual acquired practices.

Included within accruals and deferred income is an amount due to the NHS of £114.7m in respect of UDAs not delivered in FY21 and earlier years (Q2 FY20: £85.1m) along with fees of £21.8m payable to self-employed dentists in respect of work completed or in line with NHS contractual requirements (Q2 FY20: £21.0m).

Notes

Forming part of the financial statements

7 Borrowings

	Q2 FY21 £'000	Q2 FY20 £'000
Non-current		
Senior secured, floating rate and second lien notes		
Due between two and five years	552,929	552,154
	552,929	552,154
Bank loans		
Due between two and five years	20,000	25,000
Less: unamortised arrangement fees and related costs	(3,824)	(5,677)
Total non-current loans and borrowings	569,105	571,477

On 5 August 2016, the group re-financed its existing notes and drawings from its Super Senior Revolving Credit Facility through the issue of:

- £275m of 6.25% Senior Secured Fixed Rate Notes due 2022 at 100%;
- £150m of Senior Secured Fixed Rate Notes due 2022. The notes are set at a floating rate of GBP LIBOR (set at a minimum of 0%) plus 6% each quarter;
- £130m of Second Lien Notes due 2023. The Second Lien Notes are set at a floating rate of GBP LIBOR (set at a minimum of 1%) plus 8%;

A new £100m Super Senior Revolving Credit Facility (“SSRCF”) was agreed with an interest charge of GBP LIBOR plus 3.5%.