

Turnstone Midco 2 Limited

Annual report and consolidated financial
statements

Registered number 07496754

Year ended 31 March 2020

Contents

| | Page |
|--|-------------|
| Strategic report for the year ended 31 March 2020 | 1 |
| Directors' report for the year ended 31 March 2020 | 17 |
| Independent auditors' report to the members of Turnstone Midco 2 Limited | 20 |
| Consolidated income statement | 27 |
| Consolidated statement of comprehensive income | 28 |
| Consolidated balance sheet | 29 |
| Consolidated statement of changes in equity | 31 |
| Consolidated cash flow statement | 33 |
| Company balance sheet | 34 |
| Company statement of changes in equity | 35 |
| Company cash flow statement | 36 |
| Notes to the consolidated financial statements | 37 |

Strategic report for the year ended 31 March 2020

The directors present the Strategic report for the year ended 31 March 2020.

Principal activities

The principal activity of the company during the year was to act as a holding company. The principal activities of the group of companies owned by Turnstone Midco 2 Limited ('the group') are the operation of dental practices and the provision of materials, services and equipment to dental practices.

The group provides a range of National Health Service ('NHS') and private dental services from practices throughout the United Kingdom along with support services to other third party dental practices and the wider healthcare sector.

Business ownership

The group is jointly owned by The Carlyle Group ('Carlyle') and Palamon Capital Partners ('Palamon').

Founded in 1987, Carlyle is one of the world's largest alternative asset managers. Palamon, founded in 1999, is an independent private equity partnership focused on providing equity for European growth services companies.

Carlyle and Palamon have joint control of Turnstone Midco 2 Limited, through their respective interests in Turnstone Equityco 1 Limited, the company's ultimate parent, which are shown below. Carlyle's majority holding is owned by CEP III Participations S.à.r.l. SICAR, an investment vehicle for Carlyle. Palamon's ownership of the group is through its fund Palamon European Equity II, L.P. As at 31 March 2020, senior managers of the group held 24.6% of the equity interest in the company (2019: 24.6%).

The equity funding is split between preference and ordinary share capital, with the ordinary capital being designated 'A1', 'A2', 'B', 'E1' and 'E2' for ownership identification. 'A1' ordinary shares have a nominal value of £0.01, 'A2' and 'B' ordinary shares have a nominal value of £0.04, 'E1' ordinary shares have a nominal value of £0.10 and 'E2' ordinary shares have a nominal value of £0.001.

Ownership Structure of Turnstone Equityco 1 Limited

| Number of shares (% of total) | Management | | Carlyle | | Palamon | | Total | |
|-------------------------------|------------|--------------|--------------|--------------|------------|--------------|--------------|---------------|
| 'A1' Ordinary ('000) | - | - | 1,282 | 57.5% | 400 | 17.9% | 1,682 | 75.4% |
| 'A2' Ordinary ('000) | 18 | 0.8% | - | - | - | - | 18 | 0.8% |
| 'B' Ordinary ('000) | 300 | 13.5% | - | - | - | - | 300 | 13.5% |
| 'E1' Ordinary ('000) | 82 | 3.7% | - | - | - | - | 82 | 3.7% |
| 'E2' Ordinary ('000) | 147 | 6.6% | - | - | - | - | 147 | 6.6% |
| Total | 547 | 24.6% | 1,282 | 57.5% | 400 | 17.9% | 2,229 | 100.0% |

Business review

Operating loss increased from £40.0 million in FY2019 to £83.4 million in FY2020 with increases from the derecognition of rental expenses and lower losses on disposals offset by an increase in depreciation under IFRS 16 and an impairment charge of £79.1 million for the fair value of goodwill and intangible assets.

The results for the year demonstrate that the group's strategy is starting to improve underlying operational financial results. There was a significant improvement in adjusted EBITDA at both the DD (formerly Dental Directory) division and through the {my}dentist network after a successful roll-out of {my}options affordable private treatments. This improvement was delivered through to the end of February 2020 with the last two weeks of March 2020 subject to lockdown measures implemented to slow the spread of the Covid-19 outbreak. During March 2020, the dental industry received regular updates from the Chief Dental Officers ("CDOs") for England, Scotland, Wales and Northern Ireland. From 20 March 2020, this included recommendations to avoid, as far as possible, treating vulnerable patients and performing aerosol generating procedures. On 23 March 2020, {my}dentist took the decision, for the safety of patients and staff, to stop all non-emergency treatments across all practices in the group. On 24 March 2020, the CDO for England followed the action of the other CDOs and recommended that all non-urgent dental care be stopped. Routine dental treatment was allowed to restart, with modifications in operating procedures, from 8 June 2020.

{my}dentist

The group owns and manages a national chain of dental practices trading as "{my}dentist", with 597 sites at 31 March 2020 (2019: 603). The dental practices offer a broad range of primary care dental services, including dental examinations, fillings and extractions, as well as more specialised dental services such as cosmetic dentistry and orthodontics. The group offers both private and NHS services in the majority of practices and is the largest provider of NHS dentistry in the UK, with around 58% (2019: 63%) of total group revenue and 74% (2019: 77%) of divisional revenue coming from NHS contracts.

Strategic report for the year ended 31 March 2020 *(continued)*

Business review *(continued)*

The division's main trading entities are Petrie Tucker and Partners Limited, Whitecross Dental Care Limited and IDH Limited. Over recent years {my}dentist has experienced challenges in the delivery of NHS contracts and has seen a reduction in the volume of Units of Dental Activity ("UDA") completed by the business. The reduction in volume was mainly due to:

- disposal of loss-making practices due to recruitment challenges or low UDA rates;
- a reduction in the number of hours dentists make available for NHS work;
- a reduction in the volume of contracted UDAs held by individual dentists;
- a reduction in the number of eligible exempt patients resulting in changes in the UDA band mix; and
- the impact of the strategy to grow private revenues.

Following an in-depth review, {my}dentist determined that while dentists still appreciate the opportunities provided by NHS dentistry, as they progress in their career they generally wish to develop their skills by providing a wider range of treatments, some of which are not available on the NHS. In historically concentrating on NHS services, {my}dentist has not provided the opportunities for experienced dentists to develop their practice through offering additional private sessions and this has led to a decrease in the number of hours the group can make available to patients. The clear feedback from dentists led to the piloting during Q4 of FY2019 of a new affordable private treatment choice for patients, branded as "{my}options". Due to the success of the pilot, {my}options was rolled out quickly to over 400 practices during the first half of this financial year. As at the end of February 2020 (pre-Covid-19 crisis), like-for-like practice private revenue growth per working day was up more than 19% year-on-year, driven by the roll out of {my}options. Over 60% of patients treated under {my}options were also new to {my}dentist.

{my}dentist has continued to recruit more dentists in order to increase the hours available to patients. During the year ended 31 March 2020, the business continued to develop new recruitment channels in order to accelerate dentist recruitment from both UK and overseas channels. The total number of dentists engaged by the group increased by 163 over the year, including over 100 newly-qualified dentists and added 3,900 weekly hours of clinical time. The business also successfully completed 4 internal training programmes to assist dentists from European dental schools to transition to the UK. Once the training is complete, the dentists provide private treatments in practice to build up the experience required to apply for an NHS performer number. The group continues to monitor the progress of changes to UK immigration law and the potential new recruitment routes that could open up.

During this year a small number of practices were identified as no longer viable due to structural issues such as, for example, very low UDA contract values or where geographical isolation had made it difficult to recruit dentists. The group has continued to review on a practice by practice basis the portfolio of NHS contracts held by practices and the services available to be provided in the practice. This resulted in the decision to close a further 4 dental practices during the year. A pilot programme has also been implemented during the year to move smaller 1-2 chair practices into larger premises in higher footfall, "High Street" locations. Overall during the year ended 31 March 2020, 1 greenfield site was opened, 1 practice merged into another existing practice and 3 existing practices merged into one new practice.

The table below sets out the movements in the number of dental practices owned by the group:

| Movement in the number of dental practices Year ended 31 March | 2020 No. | 2019 No. |
|---|-------------|-------------|
| Opening | 603 | 643 |
| Acquired/Opened | 1 | - |
| Merged into other existing practices | (1) | - |
| Merged into new practices | (2) | (1) |
| Closed | (4) | (21) |
| Sold | - | (18) |
| Closing | 597 | 603 |

{my}dentist revenue during the year was principally derived from long-term fixed value contracts with NHS regions and sub regions ('NHS Regions'). Provided the group achieves certain performance related criteria on an annual basis, the fixed-income nature of the contracts in England and Wales provides the group with stability and visibility over its revenue and profit streams. Payments under the framework contracts are made to the business by NHS England, with payment of 1/12 of the contract value paid on the first working day of the following month. Practices collect patient contributions on behalf of the NHS, and typically remit such amounts to the NHS in arrears within two-to-six weeks thereafter. Three to six months following the contract year end (31 March), {my}dentist receive a statement detailing

Strategic report for the year ended 31 March 2020 *(continued)*

Business review *(continued)*

UDA performance under each contract. If, at the end of the contract year, a practice has not performed all the UDAs allocated under its contract, NHS England may seek to reclaim UDAs paid for but not performed. Any reclamation of payment must be made after the end of the contract year of underperformance, although repayment may be made in-year (referred to as a “handback”) if both parties agree. In addition {my}dentist has variable income streams based on treatment provided to patients under private contract and to NHS patients in Scotland and Northern Ireland.

DD (Formerly Dental Directory)

DD is a leading supplier of dental and other medical consumables, materials, medical aesthetics and services (including the installation and servicing of specialised dental equipment), selling dental supplies and services to at least 8,000 dental practices, including {my}dentist dental practices. DD has an estimated market share of 25% in the United Kingdom, by revenue.

The principal trading entities of DD are DD Products and Services Ltd (formerly Billericay Dental Supply Co. Limited) trading as DD, along with a number of smaller businesses including Dolby Medical Limited based in Scotland, Med-FX Ltd, concentrating on medical aesthetics and BF Mulholland Limited, based in Northern Ireland.

DD has had a positive year with significant revenue and adjusted EBITDA growth driven primarily by increases in medical aesthetics from an exclusive UK distributor arrangement with Galderma. Wholesale, equipment and engineering revenues have also grown but this has been partially offset by the continued slowdown in sales to high street independent dental practices due to the increasing consolidation in the sector, albeit the business made significant gains into large dental corporates towards the back end of the year. While gross profit is up, gross margins have declined in DD due to the increase in lower margin toxin sales. The new management team introduced during FY2019 have radically overhauled customer service to improve the order process and customer experience. Significant improvements have also been made in back office processes to support the development of higher margin activities such as equipment installation and repairs and maintenance. As part of this process the business was relaunched as “DD” to reflect it’s move in to other sectors whilst also retaining specialist dental knowledge.

Subsequent events - Impact of the coronavirus pandemic

The Covid-19 coronavirus outbreak has had a significant impact on the group post year end.

During March, {my}dentist practices moved quickly from normal operations to following restrictions where only emergency procedures with no aerosol generating procedures (“AGP”) could be provided to patients. During the nationwide lockdown period, dental practices were still staffed, with most practices operating a telephone only triage system and emergency cases referred into the network of NHS Urgent Dental Care Centres (UDC’s). {my}dentist operated over 70 UDCs from its practices. No private dentistry was carried out during this period and therefore private revenues came to a halt. NHS England confirmed that mixed NHS and private practices could claim for furloughed workers in proportion to the private income of the practice and {my}dentist placed just under 25% of practice staff on furlough and claimed under the Coronavirus Job Retention Scheme.

The NHS have stated that FY2020 UDA delivery would be measured with any shortfall in March delivery due to Covid-19 related practice closures to be replaced by March 2019 performance.

As the lockdown conditions eased, the CDO in England announced on 28 May that dental practices in England could restart face-to face care with effect from 8 June. {my}dentist delayed restarting activity until 15 June to enable practices to fully train staff on new Standard Operating Procedures (SOPs) including staggered appointment times, social distancing and personal protective equipment. Protective screens, hand sanitiser stations and social distancing vinyls were installed in practices and surgeries were reviewed for air flow and suction capacity. From 1 July all treatment options including AGPs are being performed in practice subject to PPE, however a downtime fallow period is required in surgery after a treatment involving AGP.

A key focus of the business during the pandemic was to maintain communication with all stakeholders – patients, self-employed clinicians, practice and Support Centre staff, the NHS and industry bodies. Regular email and video communications have been made available to keep groups updated with information relevant to their situation such as pay, infection control procedures and Personal Protective Equipment (PPE) for clinicians and oral health advice for patients. Management have also been in close contact with the NHS across the regions, the Association of Dental Groups (ADG) and the British Dental Association (BDA) on the approach of dentistry to the lockdown and then on restart procedures.

Strategic report for the year ended 31 March 2020 *(continued)*

Business review *(continued)*

Post year end, NHS contractual payments have continued to be made each month to dental practices at 1/12th of the annual contract value on condition that practices were operational and self-employed clinicians and staff continued to be paid in line with contract. An abatement to the UDA contract will be made for variable costs, such as laboratories and materials, that will not be incurred while practices were running as triage facilities and therefore at lower activity levels. The level of abatement in England has been set at 16.75% from 1 April 2020 to 7 June 2020 and at 0% from 8 June 2020 provided that 20% of usual patient activity is completed from the end of July 2020. NHS Wales have confirmed that the abatement will be 20% in Q1 FY2021 reducing to 10% in Q2 and that UDA completion will not be monitored for Q1. Payments in Scotland and Northern Ireland have continued at 80% of normal levels.

The significant reduction in dental activity across the United Kingdom resulted in the main sales channels in DD such as High Street consumables, engineering and aesthetics being heavily impacted. However, the increase in the demand for PPE across many private and public sector organisations lead the business to expand and diversify both the supply chain and customer bases.

In order to maximise group liquidity the £100 million Super Senior Revolving Credit Facility (SSRCF) was drawn down in full during March 2020, meaning that the group entered FY2021 with £68 million more cash on hand than under normal circumstances. Management have carried out detailed scenario planning based on the NHS contractual position at varying levels of abatement and a range of activity levels for the post-lockdown part of the year and into FY2022. Activity levels have been considered for NHS and private revenue recognition and for DD activity including continuing private revenue growth and maintaining the current NHS/private balance. The group's 548 NHS UDA contracts provide a significant source of certainty and cash flow resilience. The scenarios demonstrate sufficient liquidity and that all funding covenants can be met, even under a 'severe but plausible' downside scenario.

Financial review

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ('IFRS').

The group's results for the year are summarised below.

| Summary Financial Results | 2020 | 2019 |
|--|---------------|---------------|
| Year ended 31 March | £m | £m |
| Revenue | 600.5 | 571.9 |
| Gross profit | 257.6 | 254.2 |
| Operating loss | (83.4) | (40.0) |
| Amortisation | 30.5 | 30.9 |
| Depreciation | 33.6 | 21.1 |
| Amortisation of grant income | (0.1) | (0.1) |
| Impairment of goodwill and intangible assets | 79.1 | 16.3 |
| Impairment of right of use assets | 0.5 | - |
| Impairment of non-current assets reclassified as held for sale and loss on closure or disposal of dental practices | 10.0 | 24.2 |
| Differences between contingent consideration paid and estimates initially recognised | (0.1) | (0.4) |
| Value of employee services arising from shares granted | 1.1 | 1.1 |
| Other non-underlying items | 4.9 | 4.6 |
| Foreign exchange | 0.1 | 0.4 |
| EBITDA before non-underlying items | 76.2 | 58.1 |
| Less rental and other lease charge | (14.1) | - |
| Adjusted EBITDA before non-underlying items | 62.1 | 58.1 |

Consolidated income statement

Revenue from the {my}dentist division was £466.7 million (2019: £463.4 million) with £347.1 million (2019: £358.3 million) earned from NHS dentistry services and £119.3 million from private dentistry services (2019: £103.7 million). Revenue from NHS dentistry services comprised 57.8% (2019: 62.7%) of total group revenue with private dentistry services contributing 19.9% (2019: 18.1%). Non-dental practice revenue including revenue from DD, net of supplies to {my}dentist practices, was £134.1 million (2019: £109.8 million) or 22.3% of the group total (2019: 19.2%).

Strategic report for the year ended 31 March 2020 *(continued)*

Financial review *(continued)*

Consolidated income statement *(continued)*

The roll-out of {my}options as an affordable private treatment choice has driven strong demand for private dentistry services within our practices, with like-for-like practice private revenue having increased by 16.0% (2019: 6.5%), although this was depressed by the impact of the coronavirus in March. The group has also generated strong revenue growth in our Advanced Oral Health Centres, which concentrate on providing implants and more complex treatment plans on referral from other group practices. Private growth has been partly offset by a reduction in revenue from NHS dentistry services, where we have seen a reduction in the overall number of UDAs delivered by 0.7 million to 10.1 million.

Delivery percentage decreased from 85.7% for the year ended 31 March 2019 to 81.4% for the year ended 31 March 2020 due to lower UDA performance but also a reduction in in-year handbacks in FY2020. Delivery in the current year includes 326,000 UDAs to bring March 2020 in line with performance in March 2019 under the NHS policy for contract management during the pandemic.

The decline in the number of UDAs delivered is due to disposals of loss making sites, a reduction in the number of hours dentists provide for NHS work, a reduction in the volume of contracted UDAs held by dentists, and the consequence of a greater focus on, and therefore growth in private revenues. In addition, continued changes in the UK economy have reduced the number of exempt patients being seen by {my}dentist, which has resulted in a change in UDA band mix away from higher value band 2 (3 UDAs) and 3 (12 UDAs) treatments.

Gross profit for the group increased by £3.4 million from £254.2 million for the year ended 31 March 2019 to £257.6 million for the year ended 31 March 2020. Gross margin however declined from 44.4% for the year ended 31 March 2019 to 42.9% for the year ended 31 March 2020. In {my}dentist, gross margin declined from 48.4% for the year ended 31 March 2019 to 48.0% for the year ended 31 March 2020, principally due to changes in sales mix relating to increasing private revenues and changes in orthodontic contracts. The gross margin in DD was 24.3%, a decrease of 2.1 percentage points from 26.4% for the year ended 31 March 2019 reflecting the lower margins associated with toxin sales, although overall gross profit has increased.

The group's key profit performance indicator is earnings before interest, tax, depreciation, amortisation and non-underlying items ('EBITDA before non-underlying items'). Management consider this the key operating indicator as it measures the underlying performance of the group and the ability of the group to service its debt.

EBITDA before non-underlying items for FY2020 was £76.2 million.

IFRS 16 'Leases' has been adopted by the group from 1 April 2019 using the modified retrospective method of adoption. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. Consequently, the comparative information for the year ended 31 March 2019 has not been restated. Upon transition, the group recognised a right of use lease asset of £96.4 million (after a £4.4 million deduction relating to the release of property related provisions and £0.5 million increase following adjustments for prepaid and accrued property expenses) and a lease liability of £100.3 million. The adoption of IFRS 16 has resulted in a £14.1 million increase in underlying EBITDA and a £2.5 million increase in operating profit following the replacement of the operating lease costs that were previously expensed, with a depreciation charge on the leased assets. Finance costs have also increased by £4.4 million owing to the unwinding of the discount on the lease liability. See Group Accounting Policies and note 17 for more information.

In order to provide comparability with the previous year, "Adjusted EBITDA" (EBITDA before non-underlying items adjusted for rental and other lease charges) has also been quoted within these financial statements.

Adjusted EBITDA was £62.1 million, a 6.9% increase on the comparable EBITDA for FY2019 of £58.1 million. The increase included an improvement in DD adjusted EBITDA of £2.5 million to £6.4 million (2019: £3.9 million) and a £2.7 million adjusted EBITDA increase in {my}dentist to £60.4 million (2019: £57.7 million).

| | 2020 £m | 2019 £m |
|----------------------------|----------------|---------------|
| Operating loss | (83.4) | (40.0) |
| Net finance costs | (48.4) | (43.3) |
| Loss before income tax | (131.8) | (83.3) |
| Income tax (charge)/credit | (8.7) | 9.8 |
| Loss for the year | (140.5) | (73.5) |

Strategic report for the year ended 31 March 2020 *(continued)*

Financial review *(continued)*

Consolidated balance sheet

Goodwill and intangible assets amount to £437.6 million (2019: £555.3 million) and arose from the acquisition of the Integrated Dental Holdings ('IDH') and Associated Dental Practices ('ADP') groups in May 2011 together with the acquisition of further dental practices and businesses complementary to DD over the past nine years. Amounts ascribed to intangible assets acquired through business combinations are determined by using appropriate valuation techniques, including estimated discounted future cash flows. The principal intangible assets recognised by the group include contractual arrangements and relationships, customer relationships and brands or trademarks. During the year ended 31 March 2020, the group has recorded the following impairment charges, reflecting the fair value of assets compared to book value, contract handbacks and the decisions taken to close dental practices. Further details can be found in note 15 to the financial statements.

- An impairment of £77.6 million was recorded against the carrying value of goodwill within {my}dentist to reduce the book value to the total fair value. The reduction in the fair value calculations is due to an increase in uncertainty arising from the Covid-19 pandemic which required more pessimistic assumptions to be used for impairment modelling.
- An impairment of £1.4 million was recorded against the carrying value of intangible assets arising from contractual arrangements within {my}dentist as a result of the permanent contract hand-backs agreed with NHS Regions during the year. The permanent contract cuts have affected a limited number of practices where delivery rates have been consistently difficult to maintain due to either dentist or patient shortages.
- Impairments and other costs or charges totalling £10.0 million have been recorded against the carrying value of goodwill, intangible assets, tangible assets and other current assets within {my}dentist, to write the carrying value of assets associated with practices which were identified for closure down to their estimated recoverable amounts. No dental practices have been sold in the year and there are no assets held for sale at 31 March 2020.

Property, plant and equipment of £99.8 million (2019: £95.2 million) includes £27.7 million (2019: £26.0 million) of additions during the year resulting from upgrades to the group's dental practices, equipment and facilities.

Upon transition to IFRS 16, the group recognised a right of use lease asset of £96.4 million (after a £4.4 million deduction relating to the release of property related provisions and £0.5 million increase following adjustments for prepaid and accrued expenses). During the year ended 31 March 2020, additions of £4.0 million, depreciation of £11.9 million and an impairment of £0.5 million were recognised against the right of use asset resulting in a balance at 31 March 2020 of £88.0 million. See note 17 for more information.

Throughout the year ended 31 March 2020, the group had the following external borrowings, further details of which can be found in note 24 to the financial statements:

- £275 million 6.25% senior secured notes due 15 August 2022;
- £150 million LIBOR plus 6.00% senior secured floating rate notes due 15 August 2022;
- £130 million LIBOR plus 8.00% second lien notes due 15 August 2023, with LIBOR subject to a minimum floor of 1.00%; and
- £100 million Super Senior Revolving Credit Facility ('SSRCF') available until 5 August 2022 with interest payable in arrears at a rate of LIBOR plus 3.5% per annum. As at 31 March 2020, £98.2 million had been drawn against this facility, with a further £1.8 million committed against a letter of credit, leaving the facility fully drawn.

At 31 March 2020, borrowings totalled £646.0 million (2019: £570.2 million), comprising of the senior and second lien debt as detailed above, net of unamortised arrangement fees, and £98.2 million (2019: £25.0 million) drawn against the SSRCF.

Strategic report for the year ended 31 March 2020 *(continued)*

Financial review *(continued)*

Consolidated cash flow statement

Cash generated from operations increased to £78.3 million (2019: restated £37.6 million). The underlying strong cash generation of the group's business units has been boosted by a change in classification of cash flows in the current year with the adoption of IFRS 16. Payments under operating leases which were previously included within cash generated from operations, are now presented as cash flows from financing activities, representing repayments of debt. Movements in working capital increased cash by £7.9 million with an increase in the amounts outstanding to the NHS for UDA delivery shortfalls offset by increases in trade and other receivables.

After the servicing of external finance costs, investments made in the practice estate and operational systems at DD, and lease payments, there was a net cash outflow before financing transactions of £6.0 million (2019: £27.3 million). The group also made net drawdowns of £73.2 million from the SSRCF during the year (2019: £20.0 million). As a result, cash increased by £67.2 million (2019: decrease of £7.3 million) to leave a closing cash balance of £76.1 million (2019: £8.9 million). This cash balance is around £68.0 million higher than normal as a result of the group's decision to maximise its liquidity position in March 2020 at the start of the coronavirus lockdown.

Principal risks and uncertainties

Covid-19

The Covid-19 pandemic has had a significant impact on our patients, our clinicians and employees and our suppliers with the extent dependent on any recurrence and consequent lockdown measures whether local or national. The severity of the economic effect, levels of unemployment, and the speed and nature of the recovery will all impact on performance over the near future. Within {my}dentist, the revised operating procedures required for healthcare settings including additional personal protective equipment (PPE) requirements, the higher costs of PPE and the fallow period requirements between patient appointments will impact on productivity and the potential revenue an individual surgery can generate. There is also uncertainty over the speed at which patients will want to return to medical settings and the availability of clinicians and staff where medical conditions mean they are unwilling to risk returning to practice. While restrictions were placed on practices during March to June 2020, the NHS across the UK provided financial support to the industry by continuing monthly contract payments.

From the period where restrictions were placed on practice operations by the NHS, a leadership team group met regularly, first to prepare and implement guidance on how practices moved from routine treatment to telephone triage only, then to work on identifying suitable practices that could operate as UDCs for the NHS, and to build a set of comprehensive operating procedures that could be implemented when practices could reopen. A key element of the response to the situation was to maintain communications with clinicians, practice staff and patients including providing guidance on oral health maintenance while face-to-face treatment was not possible. Weekly cash flow models were also prepared for the Executive team in response to changing scenarios to evaluate financial impacts and to assess potential mitigation options.

As dental practices reduced their purchasing of materials and equipment while only able to provide telephone service, DD utilised their skill set in sourcing key elements of PPE such as masks, gloves and aprons. While this provides part of their normal core service to dental practices, the focus switched to sourcing larger amounts of items to meet the demand for large orders from the NHS supply chain and other public authorities.

Over the next year, practice operating procedures will continue to evolve in line with feedback from clinicians and practice staff and guidance from Public Health England and the NHS. Modelling will also continue on Covid-19 scenarios to identify and evaluate financial impacts.

Regulatory risks

The results of the group are subject to the regulatory environment related to health and safety, quality of care, the storage and distribution of controlled drugs and medicines, the disposal of hazardous waste and data protection, principally through the costs related to compliance. The group's dental practices are subject to regular review by the Care Quality Commission ('CQC') and could be closed if compliance with CQC guidelines cannot be demonstrated. As the leading provider of dental services in the United Kingdom, the group is well placed to respond to and comply with regulatory changes through dedicated regulatory and compliance teams. The group has a dedicated control system "{my}comply" which allows senior management, compliance specialists and area and regional operational management to see the areas each practice needs to update to remain compliant. DD is also subject to regulatory oversight from the Medical and Healthcare Products Regulatory Agency ('MHRA') in respect of the purchase, sale and storage of medicines.

Strategic report for the year ended 31 March 2020 *(continued)*

Principal risks and uncertainties *(continued)*

The group receives, generates and stores significant volumes of personal data containing patients personal and medical information. The group is therefore subject to the privacy laws with respect to the use, transfer and disclosure of this data, including the European General Data Protection Regulation ('GDPR'). During the course of the year, the group has reviewed the implementation of the regulations, ensured all staff are appropriately trained for their role and monitored operational application of internal safeguards. A failure to adequately safeguard confidential patient information could result in significant fines, penalties and litigation.

NHS contract

The NHS contract for the dentists in England and Wales, introduced in April 2006, provides clear benefits to the group, in terms of income stability and visibility. This is because the majority of the group's NHS dentistry contracts are General Dentistry Services ('GDS') contracts, which are evergreen contracts with no end date that automatically roll over upon the achievement of targeted UDA volumes. The group also has a small number of Personal Dentistry Services ('PDS') contracts, typically to deliver orthodontic dentistry services, which are for a fixed term, usually between three and five years.

However, as with any system, there are likely to be modifications to it, potentially through the introduction of a new contract structure. The extent of such modifications and the impact which they may have on the group, either in a favourable or adverse manner have not yet been drafted into legislation. The group maintains a close dialogue with the Government in developing the new contract and is participating in the prototype programme which commenced in October 2015 to ensure that the business is well prepared for future changes, if any.

The NHS Regions have also over the last two years run a competitive re-tendering process for the majority of its PDS contracts to deliver orthodontic dentistry services across England. The early tender results in the South of England identified a clear trend in terms of reductions in rate for orthodontic services and a smaller overall contract size as the NHS looks to increase the number of treatment locations. With the trend for smaller contracts, it is likely that the overall size of our orthodontic practice NHS contracts will reduce in size. In mitigation, the group is exploring options to provide more private orthodontics including using products such as clear aligners for the treatment of adults. However, the contract process is "paused" at present in certain regions due to the volume of legal challenges raised on contract awards and inconsistent bid marking.

Clinicians and other qualified staff

The group requires skilled clinicians, hygienists and nurses in order to care for its patient base. The expansion of the European Union ('EU') over recent years and, until recently, the increased capacity of UK dental schools increased the supply of clinicians available to the group. The group has also significantly invested in increasing the recruitment capabilities of the group in order to attract new and retain existing clinicians. The directors recognise the importance of quality clinicians and their self-employed status for ensuring the continued success of the group. The group manages the risk associated with the supply of clinicians through offering access and subscription to training and development programmes to enhance retention. Due to factors which have resulted in a decrease in UDA delivery rates over recent years, the group continues to work to recruit additional clinicians in order to deliver its NHS contracts and to develop the provision of private dentistry including {my}options. In addition, the UK's withdrawal from membership of the EU may impact the supply of clinicians in future but could also open up alternative recruitment options through changes in immigration regulations. The group continues to monitor developments.

The most common method for a practice owner of engaging with clinicians in the dental industry is for the clinician to operate as a self-employed associate dentist. This enables dentists to retain their clinical freedom over the appropriate course of treatment for patients, to develop their interests in specific specialities by having the flexibility to work across different practices and to have control of the amount they can earn through the hours they make available for appointments. In return, they contribute to the running costs of the practice and are responsible for a share of the laboratory costs relating to their treatment plans. This method of engagement has been recognised historically as the normal approach for the industry through the use of a model contract developed by the BDA. HMRC have published guidance that confirms if an associate is engaged on the terms of the model contract and the terms are followed, then the associate can consider themselves to be self-employed.

In common with many industries where self-employed individuals are utilised widely, HMRC have undertaken an industry review of the engagement terms used and the way these terms are applied in practice. The group utilises the model contract developed by the BDA as its basis of engagement with dentists and has clear policies and procedures about how associates work with employed practice teams. The group, supported by external advisors, has engaged with HMRC in this review, including through discussions with senior operational management and practice teams. The group is aware that HMRC have approached a number of clinicians engaged by the group in order to discuss their self-employed status.

Strategic report for the year ended 31 March 2020 *(continued)*

Principal risks and uncertainties *(continued)*

As of the date of this report, HMRC's review is still in progress. HMRC had previously notified the group that they were considering withdrawing or amending the guidance relating to the model contract with effect from 5 April 2020. This action has subsequently been paused. HMRC have stated previously that their view is that they should not now be providing guidance on individual industry-specific contracts. Given the existence of the current guidance, the group considers that any changes will relate to prospective rather than retrospective engagements and that status will need to be considered against HMRC's general guidance for self-employment in the future. Any change this has on the nature of engagement with clinicians is also likely to affect the entire industry.

The group continues to invest in improving pay structures and incentivisation for nurses and other clinical staff and continues to monitor the impact of future increases to the National Living Wage and other potential regulatory future changes upon its staffing structures. During the prior year, the group introduced a defined career path for training nurses in order to improve retention of highly skilled nursing staff.

The group has also continued to invest in its own training resource, the {my}dentist Academy, along with an accompanying online training system.

Statement of Corporate Governance arrangements

The Companies (Miscellaneous Reporting) Regulations 2019 (the "Regulations") have been in force with effect from 1 January 2019. The Regulations introduced a requirement for large private companies to provide information on the approach taken to corporate governance. The Wates Corporate Governance Principles for Large Private Companies have been used by the group to provide high-level guidance on good practice corporate governance. The Regulations also require the group to report how directors have considered their duties under section 172 of the Companies Act 2006 during the financial year.

The Board develops and promotes the purpose of the group through regular engagement across the group and challenge management to ensure that the values, strategy and culture of all group entities align with the purpose. The group operates through clear Board protocols and governance procedures and is supported by the executive management team through comprehensive regular reporting covering all aspects of the group including clinical and operational issues, health and safety, employee engagement and risk management. Board meetings include regular presentations from members of the executive team with regular deep dive sessions on key opportunities that promote long term success and on the identification and mitigation of risks.

The Board is comprised of an experienced Chairman, Alan Bowkett, and includes representation from shareholders, management and a non-Executive Director, Barry Cockcroft, who as an experienced clinician and previous UK Chief Dental Officer brings considerable knowledge of dentistry and the NHS to the Board.

The group also follows Sir David Walker's Guidelines for Disclosure and Transparency in Private Equity in its annual reporting. These guidelines were developed at the request of the British Venture Capital Association (BVCA) to demonstrate the private equity industry's commitment to transparency in portfolio company reporting. The guidelines provide a framework for private equity portfolio companies to enhance stakeholder's understanding of our activities through their annual reporting and require additional disclosure beyond compliance with regulatory requirements. The Guidelines are monitored by an independent body, the Private Equity Reporting Group.

Section 172(1) statement

The directors of the company must act in accordance with the duties detailed in section 172 of the Companies Act 2006:

"A director of a company must act in the way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole and in doing so have regard (amongst other matters to) –

- the likely consequences of any decision in the long term,
- the interests of the company's employees,
- the need to foster the company's business relationships with suppliers, customers and others,
- the impact of the company's operations on the community and the environment,
- the desirability of the company maintaining a reputation for high standards of business conduct, and
- the need to act fairly as between members of the company."

The directors remain conscious of the impact their decisions have on employees, patients of {my}dentist and customers of DD, clinicians, the NHS, communities, suppliers, regulators, investors and the environment. The directors focus on engagement with all stakeholders and this informs the group's decision-making process.

Strategic report for the year ended 31 March 2020 *(continued)*

Section 172(1) statement *(continued)*

Consequences of decisions in the long term

The group has the following key strategies:

- To maintain the highest clinical standards by developing best-in-class clinical pathways and procedures to deliver consistent, high quality and ethical dental care
- To improve clinician and nurse resourcing and retention
- To optimise practice productivity
- To grow our private business through affordable and specialist options
- To develop our DD businesses
- To ensure every practice is sustainable for the future
- To ensure cost efficiency across the group

The directors believe these are critical long term factors for the success of the group. The group plans for strategic investment to support these goals, examples include the creation of Advanced Oral Health Centres (AOHCs) to increase the availability of specialist treatments including implants, the launch of {my}options to provide an affordable private treatment option for patients and the opening up of new markets for DD through the distribution arrangement with Galderma.

The group aims to operate and develop its businesses in a way that supports current needs and provides a platform for future development. This decision making process takes into account the relevant economic, environmental and social factors to sustain the group for the long term. Part of this decision making process includes resource allocation decisions over where to invest capital to generate the best return to underpin long term operational requirements.

Engaging with our people

As a healthcare business, it is critical that we maintain the highest possible clinical standards and our people including our self-employed clinicians are key to this objective. The directors and executive management want our people to be engaged in the success of their practice and to strive to provide the best possible patient care. At DD we want our people to be able to provide our customers with industry leading service.

The Chief Executive Officer, Managing Director for {my}dentist, and the Group Clinical Director all regularly hold area meetings for clinicians and practice employees to gather feedback on potential improvements, to listen to perspectives from practices and to empower practice teams. The Managing Director for DD also regularly visits the regional businesses within the division.

{my}dentist wide “Great Place to Work” (for employees) and “Great Place to Practise” (for clinicians) surveys are run annually using consistent question patterns in order to track progress against key issues for my team, my manager, my career, my engagement and my ideas. Localised feedback from the surveys are then used to develop action plans which are aligned with wider divisional focus areas. Survey results from previous years have led to the restructuring of the Nurse career path, the introduction of Practice Manager development programmes, the launch of our Clinical Excellence awards and a reorganisation of the practice Facilities telephone helpdesk. The analysis for each survey is presented to the Board and reviewed against the current strategic goals of the business.

The annual {my}dentist clinical conference provides a forum for clinicians to meet, attend continuing professional development seminars led by industry experts and gain an insight into the development of the group. It also provides an opportunity for clinicians to highlight the positive changes their work can have on patients.

During the coronavirus lockdown, our practices were still open for telephone triage appointments and face to face for urgent treatment and were staffed on a rota basis. However, as private dental treatment could not be delivered, in accordance with BDA guidance a proportion of our workforce in line with our private turnover was placed on furlough. Priority was given for employees who were shielding or had relatives who required support. Furloughed staff were paid at 80% of normal salary. At DD changes were made to warehouse operations to ensure that social distancing was enforced and some staff were furloughed to reduce the numbers in the building at any one time. Office based employees, where possible, all moved to working remotely using technology solutions and working flexibly around domestic circumstances.

Further information is provided in the Strategic Report section “People”.

Strategic report for the year ended 31 March 2020 *(continued)*

Section 172(1) statement *(continued)*

Understanding the views of all of our stakeholders and fostering of business relationships

Engaging stakeholders and developing meaningful partnerships is essential for long term business success. The group is engaged in regular and open dialogue with relevant stakeholders to understand perspectives, expectations, concerns and needs.

The group maintains a wide range of relationships in the dental and healthcare sector in order to ensure it is able to plan effectively for the future. The group maintains relationships with the NHS at a regional and national level to understand commissioning requirements, with the BDA to understand clinicians key interests, with the Department of Health, with Members of Parliament with an interest in dentistry, with the UK dental schools to understand the aspirations of future clinicians and with suppliers to work on the future of dentistry including digital transformation. The group is also a founder member of the Association of Dental Groups and through this works with other dental corporates in the UK on issues that affect the industry as a whole.

Impact of the company's operations on the community and environment

We aim to deliver outstanding care to our patients, ensuring great clinical outcomes along a patient journey.

We collect feedback from patients as part of our NHS commitments which generates a “Friends and Family test” recommendation that is published on the NHS website for each practice. The website also includes a section for reviews and ratings and Practice Managers provide responses to feedback and take action when issues are raised. {my}dentist also has a dedicated Patient Support team who assist practices in dealing with any issues or complaints raised by patients.

Further information is provided in the Strategic Report section “Social matters” and “Environmental impact”

Maintaining a reputation for high standards of business conduct

The group operates in highly regulated environments across all of its business areas. This level of regulation is critical as it ultimately aims to protect patients and to ensure they receive the right level of care and are treated fairly. Our approach aligns with our strategy to maintain the highest clinical standards. In order to maintain compliance, {my}dentist operates a bespoke system of monitoring progress against practice targets which is reviewed alongside practice financial performance by operational management. Within DD, the Med-FX pharmacy is a registered pharmacy with the General Pharmaceutical Council and is required to declare each year compliance with professional, ethical and fitness to practice standards.

Alongside clinical compliance, our Health and Safety specialists assist practice and DD teams in maintaining a safe environment for patients and employees. The processes and procedures in place at {my}dentist have led to the team being presented with the “Commended in the Healthcare Services Sector” award at the Royal Society for the Prevention of Accidents (RoSPA) Health and Safety Awards.

The group is partly funded through debt securities listed on The International Stock Exchange. Quarterly briefing presentations are held for bondholders to discuss developments in the group over the last three months in an open and transparent way. This also provides an opportunity for questions to be raised with the Chief Executive Officer and Chief Financial Officer. All significant announcements are published on the {my}dentist website.

The need to act fairly as between members of the company

After weighing up all relevant factors, the Directors consider which course of action best enables delivery of the group’s strategy for the long term, taking into consideration the impact on stakeholders.

Financial risk management

The Board of Directors has overall responsibility for the establishment and oversight of the group’s risk management framework. The group’s activities expose it to a variety of financial risks: credit risk, liquidity risk, market risk (including currency and interest rate risk) and inflation risk.

The group’s risk management policies are established to identify and analyse the risks faced by the group, to set appropriate risk limits and controls to monitor both the risks and adherence to limits set. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the group’s activities. Further details can be found in note 32 to the financial statements.

Strategic report for the year ended 31 March 2020 (continued)

Financial risk management (continued)

KPIs – financial and non-financial

The KPIs set out in the table below are fundamental to the business and reflect focus on the drivers of value that will enable and inform the management team to achieve the business plans, strategic aims and objectives.

| KPIs | 2020 | 2019 |
|--|--------|--------|
| Year ended 31 March | | |
| Revenue (£'m) | 600.5 | 571.9 |
| EBITDA before non-underlying items (£'m) ⁽¹⁾ | 76.2 | 58.1 |
| Adjusted EBITDA before non-underlying items (£'m) ⁽²⁾ | 62.1 | 58.1 |
| Operating loss (£'m) | (83.4) | (40.0) |
| NHS dentistry services as a percentage of group revenue (%) | 57.8% | 62.7% |
| Private dentistry services as a percentage of group revenue (%) | 19.9% | 18.1% |
| Non-dental practice revenue as a percentage of group revenue (%) | 22.3% | 19.2% |
| Like-for-like private revenue growth (%) ⁽³⁾ | 16.0% | 6.5% |
| Like-for-like private revenue growth per working day (%) ⁽³⁾ | 15.6% | 5.7% |
| UDA ⁽⁴⁾ delivery (% of total contract, after temporary and permanent handbacks) | 81.4% | 85.7% |
| Total number of UDAs ⁽⁴⁾ delivered (million) | 10.1 | 10.8 |
| Gross profit margin (%) | 42.9% | 44.4% |
| Overheads as a percentage of revenue (%) ⁽⁵⁾ | 30.5% | 34.6% |
| Adjusted Overheads as a percentage of revenue (%) ⁽⁵⁾ | 32.8% | 34.6% |
| EBITDA margin (%) | 12.7% | 10.2% |
| Adjusted EBITDA margin (%) | 10.3% | 10.2% |
| Number of dental practices | 597 | 603 |
| Proforma LTM EBITDA (£'m) ⁽⁶⁾ | 75.4 | 59.4 |
| Proforma LTM adjusted EBITDA (£'m) ⁽⁶⁾ | 61.3 | 59.4 |
| Net bank and bond debt (£'m) | 569.9 | 561.3 |
| Net debt to EBITDA | 7.47 | 9.66 |
| Net debt to adjusted EBITDA | 9.17 | 9.66 |
| Net debt to Proforma LTM EBITDA | 7.56 | 9.44 |
| Net debt to Proforma LTM adjusted EBITDA | 9.30 | 9.44 |
| Cash generated from operations (£'m) | 78.3 | 37.6 |
| Cash generated from operations net of interest paid (£'m) | 36.8 | (3.0) |

- (1) EBITDA before non-underlying items consists of operating profit before deducting interest, tax, depreciation and amortisation and non-underlying items, as reported under IFRS 16. Non-underlying items are generally one-off charges not associated with ongoing operational activities of the group.
- (2) Adjusted EBITDA before non-underlying items is defined as per point 1 above however, has been adjusted to include rental and other lease charges in order to be comparable with the previous year, before IFRS 16 was implemented.
- (3) Like-for-like private revenue growth reflects true private revenue achieved at equivalent sites year on year. As such, this excludes the impact of newly acquired practices and disposed and closed sites.
- (4) UDA – Units of Dental Activity, measures set by the NHS Regions as part of the contract terms. The UDA delivery % shown above is stated after temporary and permanent handbacks agreed in-year. FY2020 figures include a top up of 326,000 UDAs from the NHS in March 2020 to reflect historical delivery. The UDA delivery % before handbacks for the year ended 31 March 2020 was 79.3% (2019: 80.0%).
- (5) Overheads as a percentage of revenue represents administrative expenses, plus distribution costs, less depreciation, amortisation and impairment of goodwill and intangible assets, and other non-underlying items. Adjusted overheads as a percentage of revenue consist of overheads as described above, however these have been adjusted to include rental and other lease charges in order to be comparable with the previous year, before IFRS 16 was implemented.
- (6) Proforma LTM EBITDA represents the estimated Last Twelve Months EBITDA of the group after annualising the result of acquisitions and adjusting for the actual LTM EBITDA arising from disposals and closures completed during the year ended 31 March 2020. Adjusted proforma LTM EBITDA consists of proforma LTM EBITDA as described above, however this has been adjusted to include rental and other lease charges in order to be comparable with the previous year, before IFRS 16 was implemented.

Strategic report for the year ended 31 March 2020 *(continued)*

Social matters

The group owns a national chain of dental practices, operating principally under the ‘{my}dentist’ brand, with 597 sites throughout the UK as at 31 March 2020 (2019: 603). Our dental practices provide community dental services to more than 4 million patients throughout the UK and offer a broad range of, and choice between, NHS and private dental treatments. The UK Government has a long term goal of increasing access to NHS dentistry for the UK population. As at 31 March 2020, {my}dentist held contracts for approximately 14% of all units of dental activity (‘UDAs’) commissioned by the NHS in England and Wales. The group is the largest provider of NHS dentistry services in the UK and plays an important role towards the UK Government achieving its access target. The group recognises that NHS dentistry has limitations in both the range of treatments available and the type of materials used. At the same time, the wider range of treatments and higher cost materials used in private dentistry can be very expensive. In order to make high quality dentistry available to the widest possible group and to increase the choice for patients, the group introduced a limited affordable private dentistry offering “access {my}dentist”. The demand for this service led the group to develop a full service affordable offering, “{my}options”, which offers patients the choice of private treatment with transparent pricing options. {my}options is currently available in 490 practices and is being rolled-out across the group.

The group has also used its scale to help raise awareness of the importance of dental hygiene, particularly amongst children. Tooth decay is nearly entirely preventable in around 90% of cases, however 25% of all five year olds have tooth decay, and it is currently the number one reason why a child aged between five and nine enters hospital in order to have a general anaesthetic, the point at which it is too late. Around 44,000 children up to the age of 19 were admitted to hospital with tooth decay in 2017/18 and it is also one of the main reasons for school absence. It can also have a longer term impact upon physical and mental health, development, confidence and educational achievement. {my}dentist kids’ clubs, involving visits to schools, nurseries and other organisations throughout the UK, have provided expert advice to children and parents on subjects including brushing techniques and tooth-friendly foods, through interactive role-play and games. The group also has online information, resources, and an app, to assist parents in improving the dental hygiene of their children, which can be found at www.mydentist.co.uk/dental-health/dental-treatment/kids-club.

In addition, the group continues to work closely with its clinical charity partner, Bridge2Aid. Bridge2Aid take clinicians from the UK to some of the poorest areas of the developing world to provide emergency dental care, as well as training for local health workers to allow them to continue to provide vital treatment. Each year the group provides funding for two of our clinicians to go to Tanzania with the charity. In 2019, the group clinicians returned to help train health workers in the Rorya region to provide sustainable emergency dentistry to remote communities. The group also provides financial aid by making a donation to Bridge2Aid each time a clinician is successfully referred to the group. In the last 12 months the group has donated more than £13,000.

The group also has a charity committee, comprised of employees from across the business, who organise a range of fundraising events throughout the year to support the group’s chosen charity, which was Cancer Research UK until 31 March 2020. All employees are encouraged to participate. During the year ended 31 March 2020, the group employees’ fundraising activities raised £22,000 for Cancer Research UK.

Environmental impact

The group aims to minimise the impact of all of its business activities upon the environment, in addition to complying with all relevant laws and regulations. As far as practicable, the group is aiming to:

- reduce consumption of electricity, gas and other fossil fuels;
- reduce the consumption of consumables and recycle equipment and other redundant items or waste;
- reduce travel and offset travel carbon emissions by enrolling in an approved programme;
- use, store, control and dispose of hazardous materials, in line with best environmental practices; and
- purchase items manufactured or produced from sustainable sources.

To achieve these aims, the group has an environmental committee (“Green Forum”), which comprises employees from across the business. The committee’s objective is to identify and promote changes that will contribute towards the group’s aims. In January 2019, the group was certified to conform with ISO 14,001 (2015) environmental standard. This process considers all elements of business activity including carbon reduction initiatives, aspects and impact assessments and opportunities based on the 3R’s concept of Reduce/Reuse/Recycle. Initiatives rolled-out across the business over the last few years continue to be successful in reducing overheads and the impact on the environment. These included providing all Practice Managers with environmental training and appointing them Environmental

Strategic report for the year ended 31 March 2020 *(continued)*

Environmental impact *(continued)*

Champion for their respective sites; reducing staff travel through the use of online meetings; monitoring staff travel more effectively with the introduction of the new Proactis expenses system; increasing the use of low power LED lighting across the estate; initiatives across our dental practices and in our support centre to reduce waste; and ensuring all electricity purchased by the organisation is from a provider supplying 100% renewable energy. The group also contracts with a third party to manage the safe and responsible disposal of all of our clinical waste. In addition, the group carries out environmental audits at 20% of sites each year and bespoke energy audits at a selection of sites.

The group emitted 6,394 tCO₂e (tonnes of carbon dioxide equivalent) for 2019/20 (across scope 1 and 2) with an intensity indicator of 0.61 tCO₂e per operational staff member (including self-employed clinicians) and 10.65 tCO₂e per £ million of revenue. When Scope 3 business travel is added, this brings the total to 7,532 tCO₂e.

The group has adopted an operational control approach to establishing the boundary. The methodology adopted is in line with the Greenhouse Gas Protocol and the BEIS Environmental Reporting Guidelines. The calculations have been completed on the SmartCarbon™ Calculator using the UK Government emissions factors.

The below table shows UK GHG emissions and energy use data for the period 1 April 2019 to 31 March 2020.

| Emissions source | kWh | Carbon (tCO ₂ e) |
|--|------------|-----------------------------|
| Scope 1 | | |
| Diesel | 2,975,746 | 781 |
| Natural gas | 2,181,288 | 401 |
| Refrigeration gas | N/A | 36 |
| Petrol | 438,324 | 109 |
| Other | 9,025 | 2 |
| Total Scope 1 | | 1,329 |
| Scope 2 | | |
| Electricity - National Grid | 19,817,133 | 5,065 |
| Total Scope 1 & 2 | | 6,394 |
| Total tCO₂e per *operational staff member on gross scope 1 & 2 | | 0.61 |
| Total tCO₂e per *£m Revenue on gross scope 1 & 2 | | 10.65 |
| Scope 3 | | |
| Electricity (Transmission and Distribution) | 18,102,799 | 393 |
| Gas oil | 129,009 | 33 |
| Passenger car | 2,097,059 | 534 |
| Rail travel | N/A | 73 |
| Flights | N/A | 101 |
| Other | N/A | 4 |
| Total Scope 3 | | 1,138 |
| Total Scope 1, 2 & 3 | | 7,532 |
| Total tCO₂e per * operational staff member on gross scope 1, 2 & 3 | | 0.71 |
| Total tCO₂e per *£m revenue on gross scope 1, 2 & 3 | | 12.54 |

*For 1 April 2019 to 31 March 2020 the number of operational staff members (including self-employed clinicians) was 10,536 and the revenue was GBP £600,471,000.

Strategic report for the year ended 31 March 2020 *(continued)*

People

People are essential to the success of the group and we look to create an environment where our employees and self-employed dental clinicians are treated fairly, feel valued and are provided with training and opportunities to develop their careers. Our {my}dentist Academy in Manchester enables us to offer a wide range of learning and development opportunities to our dental nurses and self-employed clinicians.

The group is an equal opportunities employer and is committed to the principle of equality regardless of race, religion, creed, colour, nationality, gender, disability, age, gender re-assignment or sexual orientation. Applications for employment from disabled persons are given full and fair consideration with regard paid only to the ability of candidates to carry out satisfactorily the duties of the job. Should an existing employee become disabled, every effort is made to ensure continuing employment with retraining arranged where necessary. Disabled persons share in the opportunities for career development and promotion while training takes account of any special needs.

The group is keen to ensure that our employees and self-employed clinicians have a voice in how the group operates. As such, a number of initiatives are in place to enable us to engage with our people. These include ‘town hall’ meetings conducted regionally by our CEO with local practice staff and clinicians; regular online anonymised surveys; and a forum through which employee representatives can discuss issues openly with management. Additionally, the group regularly briefs employees on matters of concern to them, including the financial and economic performance of their business units. Strategy is cascaded through the business from an annual Leadership Conference of senior operational management down through regional sessions to practice level. In addition, an annual Clinical Conference provides the opportunity for senior management to engage with a cross-section of self-employed clinicians and understand the issues and concerns they face whilst also providing a programme of interesting and stimulating Continuing Professional Development lectures.

The nature of the group’s business activities means that health and safety is an area of particular importance. The group therefore places great emphasis upon ensuring that we create a safe working environment for all of our people, patients and other visitors. For example, we are required to take care to prevent serious accidents and to eliminate from our facilities conditions that could lead to such accidents, including the risk of transmission of blood-borne and other infections. In addition, we continue to work closely with the Royal Society for Prevention of Accidents (‘RoSPA’), implementing its Quality Safety Assessment (‘QSA’) management system audit across the company. The QSA process helps ensure measurable standards of performance are being constantly improved and maintained throughout the business

Human rights

The group is committed to respecting the rights and dignity of all of the people with whom we engage, including our patients, customers, self-employed clinicians, employees, suppliers, and other stakeholders. The group’s employee handbook sets out the group’s expectations of all employees in this regard. The group has processes in place to mitigate the risk of slavery and human trafficking occurring in our supply chains and to protect whistle blowers. The group’s whistle blowing policy has recently been updated to align to the NHS’s ‘Freedom to Speak Up’ guidance. The group’s full statement in respect of the Modern Slavery Act 2015 can be found on our website at www.mydentist.co.uk/customer-services/legal.

Anti-corruption and bribery

The group is committed to the highest standards of ethical conduct and integrity in its business activities. The group’s senior management is committed to implementing effective measures to prevent, monitor and eliminate bribery by fostering a culture of integrity in which bribery is unacceptable. As such, the group will not tolerate any form of bribery by, or of, its employees, consultants or any person or body acting on its behalf. The group believes that a zero tolerance approach towards bribery will ultimately deliver benefits to the group in terms of maintaining our reputation and confidence in the group from its customers and business partners. The group has an anti-bribery policy and has provided training on the content of the policy to all employees.

Furthermore, the group is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. The group has procedures to verify the identity of parties with whom it transacts and training has been provided to all relevant employees.

Strategic report for the year ended 31 March 2020 *(continued)*

Future outlook and strategy

Whilst the market continues to be challenging for NHS dentistry in the UK with pressures on funding and resource, the directors believe that the group continues to be well positioned to take advantage of other opportunities in dentistry. In particular, the group will continue to develop patient access to new affordable and transparent private treatments. The group will also look to grow in each of its two business units through:

- continuing to deliver high quality care and promoting the highest clinical standards;
- recovering and optimising delivery of its existing NHS contracts;
- developing patient choice through affordable private treatments under the “{my}options” programme;
- increasing the number of clinician hours available to patients by recruiting additional dentists and working with existing clinicians to increase the choice they can provide patients;
- exploring opportunities to tender for new contracts, particularly through the ongoing orthodontic dentistry procurement programme;
- diversifying our revenues through new initiatives both in private dentistry and within DD;
- leveraging the investment in the {my}dentist brand to attract new customers, increase brand recognition and expand its dentistry offering;
- implementing improved systems and processes to increase productivity, efficiency and oversight;
- investing in the equipment and buildings of our practice estate; and
- using the size of our portfolio and systems to procure materials and services more efficiently and effectively.

On behalf of the Board

A Bowkett
Director
29 July 2020

Directors' report for the year ended 31 March 2020

The directors present their report and the audited consolidated financial statements of Turnstone Midco 2 Limited for the year ended 31 March 2020.

Financial risk management

Please refer to the Strategic report for a description of the group's financial risk management processes.

Future developments

Please refer to the business review section of the Strategic report for a description of future developments.

Proposed dividend

The directors do not recommend the payment of a dividend for the year (2019: £nil).

Directors

The directors of the company who held office during the year and up to the date of signing the financial statements were as follows:

| | |
|--------------|--------------------------|
| A Bowkett | (appointed 27 July 2020) |
| T Riall | |
| O Shafi Khan | (resigned 5 April 2019) |

The directors benefitted from qualifying third party indemnification provisions in place during the financial year and to the date of this report. The group also provided qualifying third party indemnity provisions to certain directors of subsidiary companies during the financial year and to the date of this report.

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and company and of the profit or loss of the group and company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed for the group financial statements and IFRSs as adopted by the European Union have been followed for the company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and company will continue in business.

The directors are also responsible for safeguarding the assets of the group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group and company's transactions and disclose with reasonable accuracy at any time the financial position of the group and company and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

Employees

Please refer to the Strategic report for further detail of the group's employment policies.

Directors' report for the year ended 31 March 2020 *(continued)*

Political and charitable contributions

The group made charitable contributions totalling £20,350 during the year (2019: £53,795). The group made no political donations during the year (2019: £nil).

Policy and practice on the payment of creditors

It is the group's policy in respect of all suppliers, including self-employed dentists, to agree payment terms in advance of the supply of goods and to adhere to those payment terms.

On 30 April 2020, Petrie Tucker and Partners Limited reported payments to creditors are on average made within 50 days, DD Products and Services Ltd (formerly Billericay Dental Supply Co Limited) reported payments to creditors within 49 days for the six month period ending 31 March 2020.

Subsequent events

Please refer to the Strategic report for details of the impact of the Covid-19 pandemic.

Going concern

The group meets its normal day to day working capital requirements through cash generated from operations and its borrowing facilities.

As part of the directors' consideration of the appropriateness of adopting the going concern basis in preparing the financial statements a range of scenarios have been reviewed. The assumptions estimated the potential impact of Covid-19 restrictions and regulations along with potential actions that could be taken over the next 18 months. The forecasts and projections, which include forecasts that have been sensitised to reflect a severe but plausible downside scenario as a result of the coronavirus, show that the group is able to operate within the level of its current facilities.

The significant variables in the scenarios related to Covid-19 included the level of contract payments provided by the NHS in England, Scotland, Wales and Northern Ireland over various time periods, the abatement to be levied by the NHS for variable costs not incurred while practices could not carry out routine treatments, the speed of recovery for NHS and private dentistry following the restart of routine treatments, productivity due to fallow periods, the cost of PPE and decisions related to contingent liabilities. The speed of recovery was also considered against the experience of the dental industry in other countries.

The base case scenario assumed that normal dental procedures and UDA monitoring recommenced in Q3 FY2021 and NHS activity returned to FY2020 levels in January 2021, with private dentistry recovering more slowly to 50% of FY2020 in Q3 and 75% in Q4 FY2021. In the downside scenario, NHS and private dental activity was modelled at 50% of FY2020 levels through until March 2021 and then at 75% of FY2020 levels for FY2022. The forecasts include continued support for dental practices from the NHS until the end of September 2020 in line with public announcements and the continued contractual payments of 1/12th of the current annual contract each month. In particular the forecasts are based on an abatement of 16.75% for variable costs in Q1 and no abatement for Q2 due to the higher costs of PPE and lower productivity due to the long fallow period required between appointments.

The amount to be repaid to the local NHS teams for the shortfall on UDA delivery in the year ended 31 March 2020 of £70.4 million will be deducted from contract payments received across the next financial year. This is therefore included in the base case cash forecast and does not impact on the forecast headroom available to the group.

The minimum cash headroom in the downside case is at March 2021 and if a payment of £20.0 million to settle the VAT contingent liability is deducted there would still be £49.7 million remaining available to the group.

The group has not assumed any structural changes to the business to remain a going concern.

These forecasts demonstrate that while a downside scenario would have a major negative impact on profitability, the group would generate adjusted EBITDA and cash in the year ended 31 March 2021 and beyond and the cash reserves would be sufficient to meet expected obligations as they fall due for a period of at least 12 months from the date of signing of these financial statements.

Directors' report for the year ended 31 March 2020 *(continued)*

Going concern *(continued)*

At 31 March 2020, the group's cash balance was £76.1 million following the draw down of the remaining balance available under the £100.0 million SSRCF in order to maximise group liquidity during the Covid-19 outbreak. This is around £68.0 million more cash than is normally held by the business. The facility is available until August 2022. As the facility is now more than 35% drawn, a quarterly covenant test is required to be met whereby the ratio of the drawn SSRCF to adjusted EBITDA must be less than 2.30x. In both the base case and downside scenarios tested above, the group retained sufficient headroom on the covenant measures to meet the test at each quarter end throughout the forecast period. The group's other principal borrowing facilities, which comprise £275 million of senior secured fixed rate notes, £150 million of senior secured floating rate notes, and £130 million second lien notes, are fully drawn down and do not require repayment until 2022 or 2023.

The group's reported operating loss and loss before tax arise principally from non-cash items, including the amortisation and impairment of goodwill and intangible assets, depreciation, and non-cash interest accrued on shareholder loan notes.

Further information on the group's available borrowing facilities and covenants can be found in notes 24 and 32 respectively to the financial statements.

The parent company and consolidated financial statements have been prepared on a going concern basis, which the directors consider to be appropriate, having given due consideration to current trading forecasts and the various facilities available to the group.

Disclosure of information to auditors

The directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Independent auditors

PricewaterhouseCoopers LLP have indicated their willingness to continue in office and a resolution that they be reappointed will be proposed at the Annual General Meeting.

On behalf of the Board

A Bowkett
Director
29 July 2020

Europa House
Europa Trading Estate
Stoneclough Road
Kearsley
Manchester
M26 1GG

Independent auditors' report to the members of Turnstone Midco 2 Limited

Report on the audit of the financial statements

Opinion

In our opinion, Turnstone Midco 2 Limited's group financial statements and company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the company's affairs as at 31 March 2020 and of the group's loss and the group's and the company's cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the company's financial statements, as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and consolidated financial statements (the "Annual Report"), which comprise: the Consolidated and Company balance sheets as at 31 March 2020; the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated and Company cash flow statements, and the Consolidated and Company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

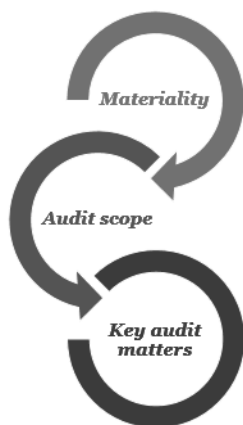
We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our audit approach

Overview



- Overall group materiality: £1.5 million (2019: £1.45 million), based on 2.5% of earnings before interest, taxes, depreciation and amortisation and before non-underlying items on a pre-IFRS 16 basis (Adjusted EBITDA).
- Overall company materiality: £20 (2019: £1.7 million), based on 1% of total assets.
- The in-scope divisions within the group are {my}dentist and DD. Within these divisions the significant components are the {my}dentist companies, Petrie Tucker and Partners Limited and Whitecross Dental Care Limited, and the DD companies, DD Products and Services Ltd and Med-FX Ltd.
- Our audit scope addressed 99% of group revenue and 99% of Adjusted EBITDA.
- In addition to the full scope components, we have audited specific financial statement line items being the borrowings within IDH Finance plc and Turnstone Midco 2 Company.
- Impairment review of goodwill and intangible assets (group) and carrying value of investments in subsidiaries (company)
- Going concern (group and company)
- Uncertain tax positions (group)
- Consideration of the impact of Covid-19 (group and company)

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Independent auditors' report to the members of Turnstone Midco 2 Limited *(continued)*

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| <p><i>Impairment review of goodwill and intangible assets (group) and carrying value of investments in subsidiaries (company)</i></p> <p>Group</p> <p>Goodwill of £142.1 million (2019: £224.3 million) and intangible assets of £295.6 million (2019: £331.0 million) are material to the group financial statements.</p> <p>Management have performed a full impairment review to compare the carrying value of the asset base, including goodwill and intangible assets, to the value of discounted future cash flows, using a five year perpetuity model which includes a number of assumptions.</p> <p>The impairment model tests for impairment based on two groups of CGUs, being {my}dentist and DD, as this is the level at which goodwill is monitored. The models incorporate a number of estimates, key ones being:</p> <ul style="list-style-type: none"> • Forecasted Adjusted EBITDA for each of the next five years and then into perpetuity, including an inflationary assumption; and • Discount rates applied to each group of CGUs. <p>An impairment charge of £79.1 million (2019: £16.3 million) has been recorded in the current year against goodwill and intangible assets. £nil of this is specific to the DD CGU (2019: £13.3 million) and £79.1 million is specific to the {my}dentist CGU (2019: £3.0 million).</p> <p>Refer to note 15 to the financial statements.</p> <p>Company</p> <p>The carrying value of investments in subsidiaries in the company balance sheet has been fully provided for in line with the impairment model used for the group impairment review, and results in a provision of £172.0 million being charged to the company profit and loss account in the year (2019: £nil).</p> | <p>We evaluated and assessed {my}dentist's and DD's future cash flow forecasts, discount rates and tested the underlying calculations.</p> <p>During our testing we noted the following:</p> <ul style="list-style-type: none"> • We found the cash flow forecasts to be consistent with the Board approved strategic plan, which has been updated to reflect a post Covid-19 focus on public dentistry UDA delivery, rather than the alternative more rapid move away from public dentistry and towards private dentistry. We reviewed the proposed increase in private revenue and maintained UDA delivery rate based on management's plans to increase the number of dentists working in the group, and their enhanced review into the performance and staff levels of specific dental practices. We further reviewed the Adjusted EBITDA forecasts by evaluating the impact of management's actions to improve performance. We considered the likelihood of the continued growth in the DD Adjusted EBITDA, based upon its success in gaining new contracts and in pivoting towards PPE supplies; • We engaged with internal experts to review the reasonableness of the discount rates used by assessing the cost of capital calculations for the CGUs and comparing against comparable organisations; • We consider it appropriate to test for impairment at the level of {my}dentist and DD as that is the level at which goodwill is monitored; • The terminal growth rate is in line with long term NHS estimates of inflation but lower than long term UK inflation expectations. We consulted with our internal experts and concluded this was appropriate based on our understanding of the business and its services; • We assessed the current management team's ability to create accurate forecasts; and |

Independent auditors' report to the members of Turnstone Midco 2 Limited *(continued)*

Key audit matters (continued)

| Key audit matter | How our audit addressed the key audit matter |
|------------------|--|
| | <ul style="list-style-type: none"> We performed sensitivity analysis and found both of the models to be sensitive to small changes in the key assumptions discussed above. As a result management have disclosed the sensitivity of the key assumptions within the financial statements (note 15). We have verified that these calculations have been performed correctly. We compared the carrying value of investments in subsidiaries in the company with the value of the group (derived from the group impairment model, less the debt of the group). <p>We have performed the above procedures and concluded that no further impairment, in addition to the £79.1 million (being the total of the impairment of goodwill of £77.6 million and other intangible assets of £1.5 million), is required in the group accounts, and that the carrying value of investments in subsidiaries in the company should be fully provided for.</p> |

Going concern

Group and company

The group and company financial statements have been prepared on the going concern basis. The directors believe that the group and company will have the cash resources it requires to service and settle its liabilities for the period extending beyond 12 months from the date of approval of the financial statements.

The group and company are part of the larger Turnstone Equityco 1 group which has borrowings of £1.5 billion (2019: £1.4 billion).

Whilst the group generates positive EBITDA, the group has made a significant loss before tax in both the prior and current year. Furthermore the group is in a significant current and net liability position. The borrowings are not due for repayment prior to August 2022. Interest is paid in cash on £555 million (2019: £555 million) of these borrowings, amounting in 2020 to £41.4 million (2019: £40.6 million).

The group has an external financing facility agreement, the £100 million Super Senior Revolving Credit Facility (SSRCF), which is available until August 2022. Covenant compliance in relation to the SSRCF is monitored, including an assessment of the drawn super senior gross leverage ratio, which cannot exceed 2.3:1. There are no other financial covenants on any of the other borrowings. At the year end the group has drawn down all of the £98.2 million (2019: £25 million) plus £1.8 million committed against a letter of credit.

The Covid-19 pandemic has had an impact on the cash flow forecasts for the 12 months from the date of signing the financial statements. For further details see the section below covering the impact of Covid-19.

In assessing the going concern assumption, we have undertaken the following procedures:

- We evaluated and challenged the group's future cash flow forecasts and the process by which they were drawn up;
- We discussed with management the impact of severe but plausible downside scenario so we could understand the rationale behind the assumptions;
- We have reviewed the terms of the group's financing facility and confirmed that there are no restrictions outside the control of the group, other than covenant compliance. We have reviewed the covenants in relation to this facility and confirmed that the group is in compliance with all covenant conditions in the current year. In addition we have compared forecasted cash flows by assessing their impact on the covenant conditions, including on the downside scenario considered;
- We have assessed management's ability to produce reliable forecasts by reviewing the accuracy of previous forecasts; and
- We have reviewed results post year end and confirmed that there are no significant variations from management's expectations (updated for Covid-19) which should change their conclusions over going concern.

Considering the results above and our assessment of the impact of Covid-19 described below, we noted no other factors that would impact the going concern status of the group and company and, therefore, we concur with

Independent auditors' report to the members of Turnstone Midco 2 Limited *(continued)*

Key audit matters (continued)

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| <p>The going concern status of the company is intrinsically linked to the success of the group.</p> <p>Uncertain tax positions</p> <p>Group</p> <p>There are three ongoing tax inquires with HMRC. These are:</p> <ul style="list-style-type: none"> • Self-employed status of dentists; • VAT on supplies in Whitecross Dental Care Limited: and • Deductibility of goodwill in Whitecross Dental Care Limited. <p>The risk of a retrospective claim succeeding in relation to the self-employed status of dentists is considered to be less than remote and therefore is not considered to be a contingent liability. In reaching this conclusion, management have considered the advice from its tax and legal advisors.</p> <p>The risk of a successful HMRC challenge in relation to VAT on supplies in Whitecross is considered stronger than “remote” but not “more likely than not” to succeed and accordingly is disclosed as a contingent liability.</p> <p>The risk of a successful challenge in relation to the deductibility of goodwill in Whitecross is now considered to be “more likely than not” to result in an amendment to the group’s tax position, based on the latest correspondence with HMRC. The group has available Capital Allowances which it can use to prevent this becoming a future cash flow item, however there is a tax charge consequence as the related deferred tax asset on the Capital Allowances has been reversed through the income statement in the current year.</p> <p>Refer to note 31 to the financial statements.</p> | <p>management’s assessment that the group and company accounts should be prepared on a going concern basis.</p> <p>In assessing the potential impact of the three tax cases that the group are in discussions with HMRC about, we have performed the following procedures:</p> <ul style="list-style-type: none"> • Reviewed correspondence between the group and HMRC, updating our evidence from prior audits; • Reviewed advice that the group has received from its external tax and legal advisors; • Discussed with management the advice and action that they had taken with regards to these cases and reviewed any associated documents; and • Discussed the matter with internal tax experts to get their view on the different cases and the likelihood of any settlement or successful HMRC challenge occurring. <p>We concluded that the position adopted in the financial statements was reasonable based on the work we performed.</p> <p>In particular, we agree with:</p> <ul style="list-style-type: none"> • Management’s view in relation to the three matters; and • The adequacy of the disclosure in the Annual Report in relation to the three matters. |

Independent auditors' report to the members of Turnstone Midco 2 Limited (continued)

Key audit matters (continued)

| Key audit matter | How our audit addressed the key audit matter |
|--|--|
| <p>Consideration of impact of Covid-19</p> <p>Group and company</p> <p>The ongoing and evolving Covid-19 pandemic and the related government response to this crisis, is having a significant impact on the UK economy. As part of the UK lockdown the dental practices were closed except for emergencies.</p> <p>The existence of Covid-19 was a condition that existed at the balance sheet date. Management has considered its impact on the group and company's financial statements and in relation to the going concern assessment.</p> <p>Management has adjusted the cash flow forecasts to reflect a severe but plausible downside scenario resulting from the direct and indirect consequences of Covid-19. For example, the trading experience in the post year end period, the approach to UDA contracts during lockdown, the level of abatement to be paid back to the NHS and the potential level of public and private dentistry in the future.</p> <p>Management has concluded that the group and company expect to continue to operate under these scenarios for at least 12 months from the date of this report and cash flow forecasts support management's going concern assumption.</p> <p>The group and company financial statements have therefore been prepared on a going concern basis.</p> | <p>In assessing management's considerations of the potential impact of Covid-19, we have undertaken the following procedures:</p> <ul style="list-style-type: none"> • Reviewed the guidance issued by the NHS in relation to the level of support available during the pandemic; • Reviewed the levels of activity following the easing of the lockdown and the practices re-opening and compared this to management's revised forecast and considered the impact of these actual results on the future forecast period; • Reviewed management's revised base case and severe but plausible downside scenario in order to assess the possible impact; and • Assessed the debt covenant conditions under the different scenarios modelled by management. <p>For our conclusion and work performed in relation to going concern and the impairment reviews, see the sections above.</p> |

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the company, the accounting processes and controls, and the industry in which they operate.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

| | Group financial statements | Company financial statements |
|--|--|---|
| Overall materiality | £1.5 million (2019: £1.45 million). | £20 (2019: £1.7 million). |
| How we determined it | 2.5% of Adjusted EBITDA before non-underlying items. | 1% of total assets. |
| Rationale for benchmark applied | Based on the benchmarks used in the annual report, EBITDA before non-underlying items is the primary measure used by shareholders in assessing the performance of the group, and is a generally accepted auditing benchmark. | We believe that total assets is the appropriate benchmark as the entity is a holding company. |

Independent auditors' report to the members of Turnstone Midco 2 Limited *(continued)*

Materiality *(continued)*

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between £700,000 and £1.35 million.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £75,000 (group audit) (2019: £70,000) and £1 (company audit) (2019: £73,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's and company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's and company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' report for the year ended 31 March 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the company or to cease operations, or have no realistic alternative but to do so.

Independent auditors' report to the members of Turnstone Midco 2 Limited *(continued)*

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Randal Casson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Manchester
29 July 2020

Consolidated income statement
for the year ended 31 March 2020

| | <i>Note</i> | 2020 £'000 | 2019 £'000 |
|--|-------------|-----------------------------|---------------|
| Revenue | 4 | 600,471 | 571,889 |
| Cost of sales | | (342,843) | (317,693) |
| Gross profit | | 257,628 | 254,196 |
| Distribution costs | | (19,868) | (17,299) |
| Administrative expenses | | (322,610) | (278,475) |
| Other income | 9 | 1,548 | 1,993 |
| Other net losses | 10 | (140) | (375) |
| Operating loss | | (83,442) | (39,960) |
| Analysed as | | | |
| EBITDA before non-underlying items | | 76,239 | 58,105 |
| Amortisation of intangible assets | 15 | (30,525) | (30,941) |
| Depreciation | 16/17 | (33,658) | (21,116) |
| Amortisation of government grant income | | 52 | 56 |
| Impairment of intangible assets | 15 | (79,053) | (16,296) |
| Impairment of right of use assets | 17 | (483) | - |
| Impairment of non-current assets reclassified as held for sale and loss on closure or disposal of dental practices | 5 | (9,971) | (24,245) |
| Differences between contingent consideration paid and estimates initially recognised | 5 | 98 | 485 |
| Value of employee services arising from shares granted | 29 | (1,077) | (1,077) |
| Other non-underlying items | 5 | (4,924) | (4,556) |
| Net foreign exchange losses | 10 | (140) | (375) |
| Operating loss | | (83,442) | (39,960) |
| Finance costs | 11 | (48,424) | (43,331) |
| Finance income | 12 | 56 | 39 |
| Net finance costs | | (48,368) | (43,292) |
| Loss before income tax | | (131,810) | (83,252) |
| Income tax (charge)/credit | 13 | (8,657) | 9,733 |
| Loss for the year | | (140,467) | (73,519) |
| Attributable to: | | | |
| Owners of the parent | | (140,467) | (73,546) |
| Non-controlling interests | | - | 27 |
| | | (140,467) | (73,519) |

All activities are derived from continuing operations. The 2020 financial statements were prepared under IFRS 16.

The notes on pages 37 to 90 form part of these financial statements.

Consolidated statement of comprehensive income
for the year ended 31 March 2020

| | 2020 | 2019 |
|---|------------------|-------------|
| | £'000 | £'000 |
| Loss for the year | (140,467) | (73,519) |
| Other comprehensive income/(expense): | | |
| <i>Items that will not be reclassified to the income statement</i> | | |
| Re-measurement gain/(loss) in respect of defined benefit pension scheme | 134 | (97) |
| | <hr/> | <hr/> |
| Total comprehensive expense for the year | (140,333) | (73,616) |
| | <hr/> <hr/> | <hr/> <hr/> |
| Attributable to: | | |
| Owners of the parent | (140,333) | (73,643) |
| Non-controlling interests | - | 27 |
| | <hr/> | <hr/> |
| | (140,333) | (73,616) |
| | <hr/> <hr/> | <hr/> <hr/> |

Movements above are disclosed net of income tax.

The notes on pages 37 to 90 form part of these financial statements.

Consolidated balance sheet
at 31 March 2020

| | <i>Note</i> | 2020 £'000 | 2019 £'000 Restated |
|--|--------------|-----------------------------|---------------------------|
| Assets | | | |
| Non-current assets | | | |
| Goodwill | <i>15</i> | 142,063 | 224,285 |
| Other intangible assets | <i>15</i> | 295,569 | 330,966 |
| Property, plant and equipment | <i>16</i> | 99,802 | 95,175 |
| Right of use assets | <i>17</i> | 88,036 | - |
| | | <hr/> | <hr/> |
| | | 625,470 | 650,426 |
| Current assets | | | |
| Inventories | <i>19</i> | 25,053 | 28,400 |
| Trade and other receivables | <i>20</i> | 51,176 | 39,732 |
| Current income tax | | 40 | 40 |
| Derivative financial instruments | <i>23</i> | 289 | - |
| Cash and cash equivalents | <i>21,36</i> | 76,063 | 8,861 |
| | | <hr/> | <hr/> |
| | | 152,621 | 77,033 |
| | | <hr/> | <hr/> |
| Total assets | | 778,091 | 727,459 |
| | | <hr/> <hr/> | <hr/> <hr/> |
| Equity attributable to the owners of the parent | | | |
| Share capital | <i>27</i> | 410,961 | 410,961 |
| Accumulated losses | <i>28</i> | (544,996) | (405,535) |
| | | <hr/> | <hr/> |
| Non-controlling interest | | (134,035) | 5,426 |
| | | <hr/> | <hr/> |
| Total equity | | (134,035) | 5,426 |
| | | <hr/> <hr/> | <hr/> <hr/> |

Consolidated balance sheet *(continued)*
at 31 March 2020

| | <i>Note</i> | 2020 £'000 | 2019 £'000 Restated |
|-------------------------------------|-------------|-----------------------------|---------------------------|
| Liabilities | | | |
| Non-current liabilities | | | |
| Borrowings | 24,36 | 645,977 | 570,177 |
| Other payables | 22 | 163 | 229 |
| Lease liabilities | 17 | 79,392 | - |
| Deferred income tax liabilities | 26 | 19,527 | 10,633 |
| Post employment benefits | 33 | 401 | 593 |
| Provisions | 25 | 4,265 | 7,757 |
| | | <hr/> | <hr/> |
| | | 749,725 | 589,389 |
| Current liabilities | | | |
| Trade and other payables | 22 | 147,461 | 130,371 |
| Lease liabilities | 17 | 14,333 | - |
| Provisions | 25 | 607 | 1,794 |
| Derivative financial instruments | 23 | - | 479 |
| | | <hr/> | <hr/> |
| | | 162,401 | 132,644 |
| | | <hr/> | <hr/> |
| Total liabilities | | 912,126 | 722,033 |
| | | <hr/> | <hr/> |
| Total equity and liabilities | | 778,091 | 727,459 |
| | | <hr/> <hr/> | <hr/> <hr/> |

The 2020 financial statements were prepared under IFRS 16. The 2019 financial statements have been restated to present deferred tax liabilities as net of deferred tax assets (see note 26)

The notes on pages 37 to 90 form part of these financial statements.

The financial statements on pages 27 to 90 were approved by the Board of Directors on 29 July 2020 and were signed on its behalf by:

A Bowkett
Director

Consolidated statement of changes in equity
for the year ended 31 March 2020

| | Share capital £'000 | Accumulated losses £'000 | Total equity attributable to owners of the parent £'000 | Non- controlling interest £'000 | Total equity £'000 |
|---|---------------------------|--------------------------------|---|--|--------------------------|
| Balance at 1 April 2018 | 410,961 | (332,946) | 78,015 | 133 | 78,148 |
| Comprehensive (expense)/income for the year | | | | | |
| (Loss)/profit for the year | - | (73,546) | (73,546) | 27 | (73,519) |
| <i>Other comprehensive expense</i> | | | | | |
| Items that will not be reclassified to the income statement | - | (97) | (97) | - | (97) |
| Total comprehensive (expense)/income for the year | - | (73,643) | (73,643) | 27 | (73,616) |
| Transactions with owners recognised directly in equity | | | | | |
| Value of employee services arising from shares granted to directors and employees (note 29) | - | 1,077 | 1,077 | - | 1,077 |
| Deferred tax in relation to the above | - | (183) | (183) | - | (183) |
| Total transactions with owners | - | 894 | 894 | - | 894 |
| Changes in ownership interests | | | | | |
| Minority interests acquired through business combinations | - | 160 | 160 | (160) | - |
| Balance at 31 March 2019 | 410,961 | (405,535) | 5,426 | - | 5,426 |

The notes on pages 37 to 90 form part of these financial statements.

Consolidated statement of changes in equity *(continued)*
for the year ended 31 March 2020

| | Share capital £'000 | Accumulated losses £'000 | Total equity attributable to owners of the parent £'000 | Non- controlling interest £'000 | Total equity £'000 |
|---|---------------------------|--------------------------------|---|--|--------------------------|
| Balance at 1 April 2019 | 410,961 | (405,535) | 5,426 | - | 5,426 |
| Comprehensive expense for the year | | | | | |
| Loss for the year | - | (140,467) | (140,467) | - | (140,467) |
| Other comprehensive expense | | | | | |
| Items that will not be reclassified to the income statement | - | 134 | 134 | - | 134 |
| Total comprehensive expense for the year | - | (140,333) | (140,333) | - | (140,333) |
| Transactions with owners recognised directly in equity | | | | | |
| Value of employee services arising from shares granted to directors and employees (note 29) | - | 1,077 | 1,077 | - | 1,077 |
| Deferred tax in relation to the above | - | (205) | (205) | - | (205) |
| Total transactions with owners | - | 872 | 872 | - | 872 |
| Balance at 31 March 2020 | 410,961 | (544,996) | (134,035) | - | (134,035) |

The notes on pages 37 to 90 form part of these financial statements.

Consolidated cash flow statement
for the year ended 31 March 2020

| | <i>Note</i> | 2020 £'000 | 2019 £'000 Restated |
|---|-------------|-----------------------------|---------------------------|
| Cash flows from operating activities | | | |
| Cash generated from operations | 35 | 78,261 | 37,627 |
| Net cash inflow from operating activities | | 78,261 | 37,627 |
| Cash flows from investing activities | | | |
| Acquisitions (net of cash acquired) | | (8) | (174) |
| Contingent consideration paid | | (435) | (359) |
| Purchase of property, plant and equipment | | (27,305) | (24,251) |
| (Costs)/proceeds on business and asset disposals | | (129) | 378 |
| Interest received | | 56 | 38 |
| Net cash outflow from investing activities | | (27,821) | (24,368) |
| Cash flows from financing activities | | | |
| Drawdown of bank loans | | 78,200 | 20,000 |
| Repayment of bank loans | | (5,000) | - |
| Bank and bond interest paid | | (41,430) | (40,590) |
| Lease cash payments | | (15,008) | - |
| Net cash inflow/(outflow) from financing activities | | 16,762 | (20,590) |
| Net increase/(decrease) in cash and cash equivalents | | 67,202 | (7,331) |
| Cash and cash equivalents at the start of the year | | 8,861 | 16,192 |
| Cash and cash equivalents at the end of the year | | 76,063 | 8,861 |

The 2020 financial statements were prepared under IFRS 16.

The notes on pages 37 to 90 form part of these financial statements.

The prior year comparatives have been restated to correct the misclassification of an element of contingent consideration paid which should have been reported as an operating cash flow rather than a financing cash flow. See note 35 for more details.

Company balance sheet
at 31 March 2020

| | <i>Note</i> | 2020 £'000 | 2019 £'000 |
|-------------------------------------|-------------|-----------------------------|----------------|
| Assets | | | |
| Non-current assets | | | |
| Investments | 18 | - | 172,007 |
| | | - | 172,007 |
| Current assets | | | |
| Cash and cash equivalents | 21 | 2 | 2 |
| | | 2 | 2 |
| Total assets | | 2 | 172,009 |
| Equity | | | |
| Share capital | 27 | 410,961 | 410,961 |
| Brought forward accumulated losses | 28 | (239,051) | (239,042) |
| Current year losses | 14 | (172,023) | (9) |
| Total net deficit/equity | | (113) | 171,910 |
| Liabilities | | | |
| Current liabilities | | | |
| Other payables | 22 | 115 | 99 |
| Total equity and liabilities | | 2 | 172,009 |

The company made a loss of £172,023,000 for the year ended 31 March 2020 (2019: £9,000). See note 14 for more details.

The notes on pages 37 to 90 form part of these financial statements.

The financial statements on pages 27 to 90 were approved by the Board of Directors on 29 July 2020 and were signed on its behalf by:

A Bowkett
Director

Company statement of changes in equity
for the year ended 31 March 2020

| | Share capital £'000 | Accumulated losses £'000 | Total equity £'000 |
|--|------------------------------------|---|-----------------------------------|
| Balance at 1 April 2018 | 410,961 | (239,042) | 171,919 |
| Comprehensive expense for the year Loss and total comprehensive expense for the year | - | (9) | (9) |
| Balance at 31 March 2019 | 410,961 | (239,051) | 171,910 |
| Comprehensive expense for the year Loss and total comprehensive expense for the year | - | (172,023) | (172,023) |
| Balance at 31 March 2020 | 410,961 | (411,074) | (113) |

The company has no items of comprehensive income during either the current or previous year, other than the loss for the year.

The notes on pages 37 to 90 form part of these financial statements

Company cash flow statement
for the year ended 31 March 2020

| | Note | 2020 £'000 | 2019 £'000 |
|---|------|-----------------------------|---------------|
| Cash flows from operating activities | | | |
| Cash generated from operations | 35 | - | 2 |
| Net cash inflow from operating activities | | - | 2 |
| Net increase in cash and cash equivalents | | - | - |
| Cash and cash equivalents at the start of the year | | 2 | - |
| Cash and cash equivalents at the end of the year | | 2 | 2 |

The notes on pages 37 to 90 form part of these financial statements.

Notes to the consolidated financial statements

1 Company information

Turnstone Midco 2 Limited (the 'company') is a private company, limited by shares, incorporated in the United Kingdom and domiciled in England. The address of the registered office is: Europa House, Europa Trading Estate, Stoneclough Road, Kearsley, Manchester M26 1GG.

The company is the holding company of Turnstone Bidco 1 Limited and its subsidiaries (collectively, the 'group'). The principal activity of the company during the year was to act as a holding company. The principal activities of the group are the operation of dental practices and the provision of materials, services and equipment to dental practices.

The group provides a range of National Health Service ('NHS') and private dental services from practices located in England, Wales, Scotland and Northern Ireland along with support services to other third party dental practices and the wider healthcare sector.

2 Accounting policies

(a) Basis of preparation

The parent company and consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ('IFRS'), interpretations issued by the IFRS Interpretations Committee and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The parent company and consolidated financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain financial instruments including derivatives and contingent consideration. The consolidated financial statements are presented in Sterling (£). Sterling is the company's functional currency, being the currency of the primary economic environment in which it operates. All amounts in these financial statements are presented in thousands of pounds Sterling (£'000), unless otherwise stated.

The parent company and consolidated financial statements have been prepared on a going concern basis, which the directors consider to be appropriate, having given due consideration to current trading forecasts and the various facilities available to the group.

The group meets its normal day to day working capital requirements through cash generated from operations and its borrowing facilities.

The group's forecasts and projections, including forecasts that have been sensitised to reflect severe but plausible downside scenarios as a result of the coronavirus, show that the group is able to operate within the level of its current facilities. The major variables in the scenarios tested due to Covid-19 are the level of abatement levied by the NHS, the speed of recovery for NHS and private dentistry following the restart of routine treatments and the cost of PPE. The speed of recovery was reviewed against the experience of the dental industry in other countries and included scenarios where volumes did not return to pre-Covid levels until the start of FY2022. The forecasts include continued support for dental practices from the NHS in line with public announcements and the continued contractual payments of 1/12th of the annual contract each month.

These forecasts demonstrate that while a downside scenario would have a major negative impact on profitability, the group would generate adjusted EBITDA and cash in the year ended 31 March 2021 and beyond and the cash reserves would be sufficient to meet expected obligations as they fall due for a period of at least 12 months from the date of signing of these financial statements.

The amount to be repaid to the local NHS teams for the shortfall on UDA delivery in the year ended 31 March 2020 of £70.4 million will be deducted from contract payments received across the next financial year. This is therefore included in the base case cash forecast and does not impact on the forecast headroom available to the group.

At 31 March 2020, the group's cash balance was £76.1 million following the draw down of the remaining balance available under the £100.0 million SSRCF in order to maximise group liquidity during the Covid-19 outbreak. This is around £68.0 million more cash than is normally held by the business. The facility is available until August 2022. As the facility is now more than 35% drawn, a quarterly covenant test is required to be met whereby the ratio of the drawn SSRCF to adjusted EBITDA must be less than 2.30x. In both the base case and downside scenarios tested above, the group retained sufficient headroom on the covenant measures to meet the test at each quarter end throughout the forecast period. The group's other principal borrowing facilities, which comprise £275 million of senior secured fixed rate notes, £150 million of senior secured floating rate notes, and £130 million second lien notes, are fully drawn down and do not require repayment until 2022 or 2023.

Notes to the consolidated financial statements *(continued)*

2 Accounting policies *(continued)*

(a) Basis of preparation (continued)

The group's reported operating loss and loss before tax arise principally from non-cash items, including the amortisation and impairment of goodwill and intangible assets, depreciation, and non-cash interest accrued on shareholder loan notes.

Further information on the group's available borrowing facilities and covenants can be found in notes 24 and 32 respectively to the financial statements.

The principal accounting policies adopted in the preparation of the consolidated financial statements are set out below. The policies have been consistently applied unless otherwise stated.

Prior year restatements for accounting errors

There are four restatements for errors in the prior year accounts that are reflected in the comparatives to the FY2020 accounts. None are considered to be of particular significance. They have been identified during the course of the current year end process.

Cash flow statement - a payment for deferred contingent consideration of £3.2 million made in FY2019 was incorrectly classified as a Financing cash flow, and has now been reclassified to Operating cash flows. It is a cash flow in relation to a non-underlying cost in the March 2018 accounts.

Deferred tax - the deferred tax liabilities and assets were shown gross in FY2019 (and in previous years) and have been amended to be disclosed on a net basis in FY2019 and FY2020. While this does impact on several financial statement line items on the balance sheet, the overall impact on net assets is nil.

Tax losses - the unrecognised tax losses amount disclosed in the FY2019 accounts has been corrected from £27.7 million to £34.6 million in the FY2019 comparative information. This was due to a spreadsheet calculation error.

Post employment benefits - the previously unrecognised annuity asset and related liability of £2.6 million were effectively netted to £nil in the FY2019 note analysis of pension assets and liabilities. These two items have now been grossed up in the note disclosure of pension assets and pension liabilities in FY2019, and also in FY2020. There is no change to the balance sheet financial statement line item, which continues to be disclosed on an overall net basis.

(b) 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.

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.

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.

Notes to the consolidated financial statements (continued)

2 Accounting policies (continued)

(c) New standards, amendments and interpretations

Standards, amendments and interpretations effective and adopted by the group:

For the financial year ended 31 March 2020, the group has adopted IFRS 16 “Leases” with effect from 1 April 2019 using the modified retrospective method of adoption. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The standard permits a choice on initial adoption, on a lease by lease basis, to measure the right of use asset at either its carrying amount as if IFRS 16 had been applied since the commencement of the lease, or an amount equal to the lease liability, adjusted for accruals or prepayments. The group has elected to measure the right of use asset equal to the lease liability, consequently, there has been no net impact on opening retained earnings and the comparative information has not been restated.

IFRS 16 – Leases

IFRS 16 became effective for accounting periods commencing on or after 1 January 2019 and replaces IAS 17 and related interpretations. IFRS 16 provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less, or unless the underlying asset has a low value.

The impact of adopting IFRS 16 has been significant for the group due to the number of short leasehold properties, principally in respect of the group’s dental practice estate, and leased motor vehicles used by the group. The group has recognised a ‘right of use’ asset in respect of these leases, along with an equivalent lease liability, which has been recognised based on the present value of the remaining lease payments, discounted using the incremental cost of borrowing at the date of initial application.

The group has elected to adopt the following practical expedients on transition:

- Use of a single discount rate to a portfolio of leases with reasonably similar characteristics.
- Relied on its assessment of whether leases are onerous immediately before the date of initial application.
- Applied the short-term leases exemptions to leases with a lease term that ends within 12 months at the date of initial application.
- For leases of low value assets, the group has elected to recognise a lease expense on a straight-line basis.
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

IFRS 16 impacts the classification of lease related expenditure within the income statement. This results in an increase to reported operating profit and a more substantial increase to EBITDA before non-underlying items, as lease related costs, which were previously charged within administrative expenses, are now under IFRS 16 split between depreciation and finance costs. The presentation of lease related cash flows within the cash flow statement has also changed. Previously, payments under operating leases were included within cash generated from operations. Under IFRS 16, these payments are now presented as cash flows from financing activities, representing repayments of debt.

The adoption of the above standard has resulted in recognition of an opening right of use lease asset of £96.4 million (after a £4.4 million deduction relating to the release of property related provisions and £0.5 million increase following adjustments for prepaid and accrued expenses) and a lease liability of £100.3 million. Rental and operating lease charges of £14.1 million have been excluded from administrative expenses and replaced with a depreciation charge on the right of use asset of £11.9 million. An interest charge of £4.4 million has also been charged to finance costs in relation to the unwinding of the discount on the lease liability. See note 17 for further details.

Standards, amendments and interpretations which are not effective or early adopted by the group:

A number of new, revised and amended accounting standards and interpretations are currently endorsed but are effective for annual periods beginning on or after 1 January 2020, and have not been applied in preparing these consolidated financial statements. These standards, interpretations or amendments are not expected to have a material effect on the group’s financial statements.

Notes to the consolidated financial statements *(continued)*

2 Accounting policies *(continued)*

(d) Foreign currency translation

Transactions and balances

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 year end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement.

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 net losses. See note 2(p).

(e) 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.

Upon transition to IFRS, the group applied IFRS 3 to all previous business combinations, including the acquisitions of both Pearl Topco Limited and ADP Healthcare Services Limited on 11 May 2011.

(f) 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. See note 2(g). 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 (see note 3 for further details).

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 to the consolidated financial statements *(continued)*

2 Accounting policies *(continued)*

(g) 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 groups of CGUs. Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, the group of CGUs to which goodwill has been allocated is such 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 CGUs 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.

(h) Property, plant and equipment

Owned assets

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset into its working condition for its intended use. When parts of an item of property, plant and equipment have different useful lives, those components are accounted for as separate items of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the income statement within administrative expenses.

Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. The estimated useful lives are as follows:

Fixtures, fittings and equipment: 4-10 years

Fixtures, fittings and equipment include short leasehold improvements.

The residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each accounting period.

Notes to the consolidated financial statements *(continued)*

2 Accounting policies *(continued)*

(i) Inventories

Inventory is stated at the lower of cost and net realisable value (net realisable value is the price at which inventories can be sold after allowing for costs of sale).

Dental practice consumables are valued at the weighted average purchase cost during the financial year. Average purchase cost is calculated to take account of trade discounts received and transport and handling costs incurred.

Goods for resale are valued at actual cost, including the value of any trade discounts received or transport and handling costs incurred.

Provision is made for obsolete, slow moving and defective inventory.

(j) Trade receivables and prepayments

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less appropriate allowances for expected credit losses (provision for impairment).

In accordance with the accounting policy for impairment of financial assets, the group recognises an allowance for expected credit losses (ECLs) for customers and other receivables. As permitted by IFRS 9 the group applies the simplified approach which requires expected lifetime credit losses (ECL's that result from all possible default events over the expected life of the financial instrument) to be recognised from initial recognition of the receivables. An estimate is made of the ECL based on the groups historical default rates as well as forward looking estimates at the end of each reporting period. Subsequent recoveries of previously impaired trade receivables are recognised as a credit to the income statement as they are realised.

Accrued income includes amounts due from the NHS in England and Wales in respect of the group's long term fixed income contracts to deliver dentistry services.

(k) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with an original maturity of three months or less.

(l) Trade and other payables

Trade and other payables are initially stated at fair value and subsequently measured at amortised cost.

(m) Government grants

Grants received to assist with the purchase of property, plant and equipment are credited to deferred income within trade and other payables and are amortised to the income statement over a period to match the useful life of the asset acquired. Revenue grants are recognised in the income statement through administrative expenses in the financial year in which the related service or obligation is performed.

(n) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fees are deferred until the drawdown occurs and are subsequently amortised through the income statement over the term of the facility.

(o) Provisions

A provision is recognised in the balance sheet when the group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, when appropriate, the risks specific to the liability. The increase in the provision due to passage of time is recognised within finance costs. Further details are provided in note 25.

Notes to the consolidated financial statements *(continued)*

2 Accounting policies *(continued)*

(p) Derivative financial instruments

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

Foreign exchange forward contracts are used to hedge a proportion of the group's exposure to fluctuations in foreign exchange rates.

Under the terms of the indenture to the group's senior secured fixed rate notes and floating rate notes, the group holds certain call options to re-purchase all or part of the notes at pre-determined amounts during certain periods.

In addition, in a very small number of instances, the group has entered into option contracts with the vendors of businesses in which the group has acquired a majority shareholding in order to enable the group to acquire the remaining equity interest at a pre-determined price, or by reference to a pre-determined earnings multiple, in the future.

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

Derivatives are initially recognised at fair value on the date a derivative contract is entered into, and they are subsequently remeasured to their fair value at the end of each reporting period.

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. See note 32 for further details.

(q) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in share premium as a deduction from the proceeds.

(r) 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 based upon the volume of dental activity delivered in the financial year. Amounts received from the NHS in advance of dental activity delivery are held on the balance sheet within accruals. More information on this is provided in note 22. Revenue from all private dental work and NHS patients in Scotland is recognised based upon the completion of each piece of treatment carried out, with the exception of orthodontic treatment, which is recognised based upon the stage of completion reached during the course of treatment. Revenue generated 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.

From early March 2020, due to the coronavirus outbreak NHS dental practices were restricted to emergency procedures only. The NHS confirmed that for the contract year ended 31 March 2020, any shortfall in March 2020 activity performance due to the restrictions placed on practices could be mitigated by substituting the number of March 2019 claims for March 2020 performance. This resulted in the recognition of revenue from 326,000 UDAs in March 2020.

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.

(s) Leases

Accounting policy applied until 1 April 2019 (IAS 17)

The costs associated with operating leases are charged to the income statement on an accruals basis over the period of the lease. The benefit of any lease incentives is recognised in the income statement evenly over the period of the lease up to the lease expiry date.

Accounting policy applied from 1 April 2019 (IFRS 16)

The group's lease arrangements are principally short leasehold properties, most notably in respect of the group's dental practice estate as well as some 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.

Notes to the consolidated financial statements *(continued)*

2 Accounting policies *(continued)*

(s) Leases (continued)

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 remeasured 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.

(t) Net finance costs

Finance costs

Finance costs comprise interest payable on borrowings, associated transaction costs and dividends on redeemable preference shares. Finance costs are charged to the income statement on an accruals basis using the effective interest rate method. In addition, finance costs also include interest in respect of lease liabilities and the unwinding of discount on provisions.

Finance income

Finance income comprises interest receivable on cash and cash equivalents or other funds invested and fair value movements on hedging arrangements. Interest income is recognised in the income statement as it accrues using the effective interest method.

(u) 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 tax 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. Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

Notes to the consolidated financial statements *(continued)*

2 Accounting policies *(continued)*

(v) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting of business performance to the Board of Directors and the Executive Management Team. The Executive Management team has been identified as the chief operating decision maker and consists of the Executive Directors and certain key management personnel.

(w) Employee benefits: pension obligations

The group makes contributions to a small number of defined contribution pension schemes on behalf of its employees, including the National Employment Savings Trust ('NEST'). Contributions are recognised in the income statement on an accruals basis. In addition, the group also operates a stakeholder defined contribution pension scheme, to which the group makes no contributions on behalf of its employees. The assets of both of these schemes are held separately from those of the group in independently administered funds. The group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior years.

The group also operates a pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the group. The scheme is closed to new members and has no active members. The group makes contributions in respect of current or past service. The group also funds the administration costs of the scheme which are charged to administrative expenses within the income statement as incurred. The re-measurement loss arising from the actual return on assets and changes in demographic and financial assumptions underlying the present value of scheme liabilities is taken to other comprehensive income. The group has no recourse to recover any surplus funds held by the scheme once all liabilities have been settled. Accordingly, where the scheme is in a surplus position at the balance sheet date, this surplus is not recognised as an asset within the balance sheet.

(x) Share based payments

As set out in more detail in note 29, certain employees of the group have been, or will be, gifted 'E1' or 'E2' ordinary shares in the company for nil consideration. The gift of shares for nil consideration is a share based payment. The fair value of the employee services received in exchange for the gift of the shares is recognised as an expense, within administrative expenses in the income statement.

The amount to be expensed is adjusted to reflect management's estimate of the number of leavers. At each balance sheet date, the group revises its estimate of the number of leavers when determining the charge to be recognised in the income statement.

(y) Non-underlying items

Non-underlying items are considered to be items which are non-recurring or which do not form part of the underlying trading results of the group. In some cases non-recurring items will appear in more than one year (for example if they relate to an activity that takes place across a year end).

Notes to the consolidated financial statements *(continued)*

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.

(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.

(b) Critical estimates

Impairment of goodwill and other intangibles

Determining whether goodwill or other intangible assets are impaired requires an estimation of the fair value or value in use of the CGUs 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. Management have conducted impairment reviews at the reporting date, which have resulted in impairment charges totalling £79.1 million (2019: £16.3 million) being recognised within non-underlying items in the income statement for the year ended 31 March 2020. Due to the impact of the coronavirus, the base case for future growth in the cash flows of the group has been reduced in line with guidance from the Financial Reporting Council and focusses on maintaining current levels of NHS dentistry with lower growth in private dentistry than has been historically achieved. More details, including carrying values and the outcomes of the reviews conducted including sensitivity analysis are included in note 15.

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. More details, including carrying values, are included in note 15. There were no business combinations during the current year.

Notes to the consolidated financial statements *(continued)*

3 Critical accounting judgements and estimates *(continued)*

(b) Critical estimates (continued)

Application of tax laws

The group is subject to complex tax laws. Changes in tax laws and their interpretation could adversely affect our tax position, including our effective tax rate or tax payments. We often rely on generally available interpretations of applicable tax laws and regulations including guidance specific to our industry published by HMRC on their website. Changes in NHS regulations and interpretations have in the past also required changes in the group structure which could subsequently lead to an adverse tax position. In certain instances we have secured clearance from HMRC on the application of tax law within the group.

We have regular, open, discussions with HMRC over issues that could affect either the group or the industry generally, such as the partnership acquisition model, the self-employed status of dentists under the model BDA contract and the VAT treatment of dental facilities. These discussions have highlighted differences in interpretation between HMRC on the one hand and the group and its external advisors on the other. In these circumstances we continue to provide additional information to HMRC to support our current tax positions.

HMRC have notified the group that any withdrawal of the industry specific guidance related to the self-employment status of dentists has been deferred from 5 April 2020 for an unspecified period of time. Based on the application of current guidance, the group considers any potential future change in the tax treatment of associates would be prospective rather than retrospective and that status will need to be considered against HMRC's general guidance for self-employment in the future. Any change this has on the nature of the group's engagement with clinicians is also likely to affect the entire industry.

We continue to discuss the substance and legal form of the bare trust partnership arrangements we have used to acquire 145 practices. This is a widely used industry specific method that allows practices to change hands while meeting the requirements of NHS regulations. Discussions have focussed on the corporation tax deduction allowed for the goodwill amortisation charge recognised on the acquisition of the trade and assets and the VAT treatment of dental facilities provided to the partnership and to associate dentists.

There cannot be certainty that HMRC will agree with our interpretation and application of these laws. If our tax positions are subject to a successful challenge by HMRC, the imposition of additional taxes could require us to pay taxes that we currently do not collect or pay, or increase the costs of our services to track and collect such taxes, which could increase our costs of operations or effective tax rate. In certain circumstances, it is possible for HMRC to require any tax they deem to be due to be paid before their interpretation can be challenged through appeal.

However, the likelihood of any such challenge being successful is considered by management, after discussion with specialist advisors including legal counsel, as not probable and accordingly these accounts do not include any provision in relation to the ongoing tax discussions relating to VAT and self-employment status. The corporation tax deduction allowed for goodwill amortisation specifically relating to the NHS contract can be replaced by a claim for capital allowances in each historical period with no cash impact. The group has accounted for this replacement through the increase in deferred tax liabilities for goodwill claims not yet made and the reduction of deferred tax assets for the utilisation of capital allowances to replace historical amortisation claims.

Notes to the consolidated financial statements *(continued)*

4 Segmental analysis

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 597 sites at 31 March 2020 (2019: 603).

DD, which principally comprises DD Products and Services Ltd (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.

From 1 April 2019, specific costs relating to the management of the group have been shown separately from the {my}dentist operating segment and are included within ‘Group costs and intra-segment eliminations’. The segmental analysis for the year ended 31 March 2019 has been restated to reflect this change in reporting to the Executive Management.

Predominantly all services are provided in the United Kingdom.

Revenue is analysed by category as follows:

| | 2020 | 2019 |
|-----------------------|----------------|-------------|
| | £'000 | £'000 |
| Provision of services | 472,739 | 470,796 |
| Sale of goods | 127,732 | 101,093 |
| | <hr/> | <hr/> |
| Total revenue | 600,471 | 571,889 |
| | <hr/> <hr/> | <hr/> <hr/> |

Notes to the consolidated financial statements (continued)

4 Segmental analysis (continued)

Year ended 31 March 2020

| | {my}dentist £'000 | DD £'000 | Group costs, and intra- segment eliminations £'000 | Total £'000 |
|--|----------------------|------------------|--|------------------|
| Revenue | | | | |
| NHS dentistry | 347,058 | - | - | 347,058 |
| Private dentistry | 119,327 | - | - | 119,327 |
| Non-dental practice revenue | 307 | 160,806 | (27,027) | 134,086 |
| Total revenue | 466,692 | 160,806 | (27,027) | 600,471 |
| Gross profit | 223,884 | 38,998 | (5,254) | 257,628 |
| <i>Gross margin</i> | <i>48.0%</i> | <i>24.3%</i> | | <i>42.9%</i> |
| Overheads | (152,192) | (31,288) | 543 | (182,937) |
| <i>Overheads as % revenue</i> | <i>32.6%</i> | <i>19.5%</i> | | <i>30.5%</i> |
| Other income | 1,548 | - | - | 1,548 |
| EBITDA before non-underlying items | 73,240 | 7,710 | (4,711) | 76,239 |
| <i>EBITDA margin</i> | <i>15.7%</i> | <i>4.8%</i> | | <i>12.7%</i> |
| Amortisation of intangible assets | (27,117) | (3,408) | - | (30,525) |
| Depreciation | (31,234) | (2,931) | 507 | (33,658) |
| Amortisation of government grant income | 52 | - | - | 52 |
| Impairment of goodwill and intangible assets | (79,053) | - | - | (79,053) |
| Impairment of right of use assets | (417) | (66) | - | (483) |
| Impairment of non-current assets reclassified as held for sale and loss on closure or disposal of dental practices | (9,971) | - | - | (9,971) |
| Differences between contingent consideration paid and estimates initially recognised | 98 | - | - | 98 |
| Value of employee services arising from shares granted | - | - | (1,077) | (1,077) |
| Other non-underlying items | (3,560) | (1,364) | - | (4,924) |
| Net foreign exchange losses | - | (140) | - | (140) |
| Segment loss operating loss | (77,962) | (199) | (5,281) | (83,442) |
| Net finance costs | | | | (48,368) |
| Loss before income tax | | | | (131,810) |
| Segment assets | 674,588 | 109,153 | (5,650) | 778,091 |
| Segment liabilities | (232,868) | (142,556) | (536,702) | (912,126) |
| Additions | | | | |
| Goodwill | - | - | - | - |
| Right of use assets | 3,967 | 74 | - | 4,041 |
| Property, plant and equipment | 26,187 | 2,960 | (1,417) | 27,730 |

Notes to the consolidated financial statements *(continued)*

4 Segmental analysis *(continued)*

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

Year ended 31 March 2020

| | {my}dentist £'000 | DD £'000 | Group costs, and intra- segment eliminations £'000 | Total £'000 |
|------------------------------------|----------------------|--------------|--|-----------------|
| EBITDA before non underlying items | 73,240 | 7,710 | (4,711) | 76,239 |
| Rental and other lease charges | (12,812) | (1,306) | - | (14,118) |
| Adjusted EBITDA | 60,428 | 6,404 | (4,711) | 62,121 |
| <i>Adjusted EBITDA margin</i> | <i>12.9%</i> | <i>4.0%</i> | | <i>10.3%</i> |

Notes to the consolidated financial statements (continued)

4 Segmental analysis (continued)

Year ended 31 March 2019 (Restated)

| | {my}dentist £'000 | DD £'000 | Group costs, and intra- segment eliminations £'000 | Total £'000 |
|--|----------------------|------------------|--|------------------|
| Revenue | | | | |
| NHS dentistry | 358,332 | - | - | 358,332 |
| Private dentistry | 103,734 | - | - | 103,734 |
| Non-dental practice revenue | 1,347 | 135,437 | (26,961) | 109,823 |
| Total revenue | 463,413 | 135,437 | (26,961) | 571,889 |
| Gross profit | 224,228 | 35,797 | (5,829) | 254,196 |
| <i>Gross margin</i> | <i>48.4%</i> | <i>26.4%</i> | | <i>44.4%</i> |
| Overheads | (168,490) | (31,942) | 2,348 | (198,084) |
| <i>Overheads as % revenue</i> | <i>36.4%</i> | <i>23.6%</i> | | <i>34.6%</i> |
| Other income | 1,993 | - | - | 1,993 |
| EBITDA before non-underlying items | 57,731 | 3,855 | (3,481) | 58,105 |
| <i>EBITDA margin</i> | <i>12.5%</i> | <i>2.8%</i> | | <i>10.2%</i> |
| Amortisation of intangible assets | (27,533) | (3,408) | - | (30,941) |
| Depreciation | (19,625) | (1,862) | 371 | (21,116) |
| Amortisation of government grant income | 56 | - | - | 56 |
| Impairment of goodwill and intangible assets | (3,016) | (13,280) | - | (16,296) |
| Impairment of non-current assets reclassified as held for sale and loss on closure or disposal of dental practices | (24,245) | - | - | (24,245) |
| Differences between contingent consideration paid and estimates initially recognised | 485 | - | - | 485 |
| Value of employee services arising from shares granted | - | - | (1,077) | (1,077) |
| Other non-underlying items | (2,081) | (2,475) | - | (4,556) |
| Net foreign exchange losses | - | (375) | - | (375) |
| Segment operating loss | (18,228) | (17,545) | (4,187) | (39,960) |
| Net finance costs | | | | (43,292) |
| Loss before income tax | | | | (83,252) |
| Segment assets | 631,608 | 99,898 | (4,047) | 727,459 |
| Segment liabilities | (127,727) | (126,710) | (467,596) | (722,033) |
| Additions | | | | |
| Goodwill | 126 | 158 | - | 284 |
| Property, plant and equipment | 24,683 | 2,449 | (1,093) | 26,039 |

Notes to the consolidated financial statements *(continued)*

5 Other non-underlying items

The following items, which are considered by the directors to be non-recurring or which do not form part of the underlying trading results of the group have been charged/(credited) in arriving at operating loss.

| | Group 2020 £'000 | Group 2019 £'000 |
|--|---------------------------------|------------------------|
| Restructuring costs | 1,907 | 3,579 |
| Acquisition related professional fees and expenses | 15 | 53 |
| Legal and professional fees | 1,636 | 560 |
| Strategic review fees | - | 560 |
| Onerous lease provision release | - | (204) |
| Dilapidations provision | 256 | - |
| Business development | 1,057 | - |
| Loss/(profit) on disposal of property, plant and equipment | 31 | (13) |
| Expenses in respect of defined benefit pension scheme (note 33) | 22 | 21 |
| | <hr/> | <hr/> |
| Other non-underlying items | 4,924 | 4,556 |
| | <hr/> | <hr/> |
| Differences between contingent consideration paid and estimates initially recognised | (98) | (485) |
| | <hr/> | <hr/> |
| Impairment of non-current assets reclassified as held for sale and loss on closure or disposal of dental practices | 9,971 | 24,245 |
| | <hr/> | <hr/> |

Restructuring costs

Costs incurred during the year ended 31 March 2020 and the year ended 31 March 2019 principally relate to senior management changes, and other staff and business restructuring, including related professional fees.

Acquisition related professional fees and expenses

The group incurs certain professional fees and expenses in respect of potential practice and subsidiary acquisitions.

Legal and professional fees

Legal and professional fees for the year ended 31 March 2020 and 31 March 2019 include advisory services in relation to the group's VAT discussions with HMRC. The balance also includes legal settlements and other non-recurring legal advisory services. Recurring legal and professional fees are charged within the underlying trading result.

Strategic review fees

Fees for the year ended 31 March 2019 relate to a business strategy review project that was carried out during the year.

Onerous lease provision release

During the year ended 31 March 2019, £204,000 was released from the onerous lease provision following the sublet of the Winsford premises.

Dilapidations provision

During the year ended 31 March 2020, a provision has been made for the costs associated with a one-off assessment of additional obligations to return practices to their original condition at the end of the lease.

Business development costs

Costs include initial expenses associated with the development and roll out of new operational activities associated with private revenue such as the {my} options projects.

Notes to the consolidated financial statements (continued)

5 Other non-underlying items (continued)

Loss/(profit) on disposal of property, plant and equipment

The loss on disposal for the year ended 31 March 2020 related principally to the write off of OPG equipment in {my}dentist offset by the sale of equipment and two motor vehicles in DD. The profit for the year ended 31 March 2019 resulted from the sale of dental equipment in {my}dentist along with the sale of three motor vehicles in DD, offset by the write off of old or scrapped assets.

Differences between contingent consideration paid and estimates initially recognised

During the years ended 31 March 2020 and 31 March 2019 the group settled certain contingent consideration obligations for amounts which were different to the initial fair value estimates recognised in the balance sheet. The net difference of £98,000 was released (2019: £485,000 released) to the income statement.

Impairment of non-current assets reclassified as held for sale and profit/(loss) on closure or disposal of dental practices

The practice portfolio is being monitored closely for practices which are no longer deemed viable due to reasons such as low UDA contract values, geographical issues or recruitment issues. During the year ended 31 March 2020, a further 4 dental practices were closed (2019: 18 sold, 21 closed).

6 Auditors' remuneration

The total remuneration payable by the group to its auditors, PricewaterhouseCoopers LLP, during the financial year is analysed below.

| | 2020 £'000 | 2019 £'000 |
|---|---------------|---------------|
| Audit services | | |
| Audit of the parent company and the consolidated financial statements | 16 | 9 |
| Audit of the company's subsidiaries | 454 | 389 |
| | <hr/> | <hr/> |
| | 470 | 398 |
| Other services | | |
| Other advisory services | 10 | 6 |
| | <hr/> | <hr/> |
| Total remuneration payable to PricewaterhouseCoopers LLP | 480 | 404 |
| | <hr/> <hr/> | <hr/> <hr/> |

Other advisory services relate to work conducted on covenant reporting.

Notes to the consolidated financial statements (continued)

7 Employees

The company has no employees (2019: none).

The average monthly number of persons employed by the group (including directors) during the financial year was as follows:

| | Group 2020 | Group 2019 |
|------------------------------------|------------------------|-----------------|
| Business unit | No of employees | No of employees |
| {my}dentist - surgery staff | 3,785 | 3,907 |
| {my}dentist - administration staff | 2,527 | 2,653 |
| DD | 563 | 580 |
| | <hr/> | <hr/> |
| | 6,875 | 7,140 |
| | <hr/> <hr/> | <hr/> <hr/> |

The staff costs of these persons were as follows:

| | Group 2020 | Group 2019 |
|-----------------------|-----------------------|---------------|
| | £'000 | £'000 |
| Wages and salaries | 128,590 | 126,720 |
| Social security costs | 8,958 | 8,789 |
| Other pension costs | 2,191 | 1,503 |
| | <hr/> | <hr/> |
| | 139,739 | 137,012 |
| | <hr/> <hr/> | <hr/> <hr/> |

8 Directors' remuneration

The directors received no emoluments from the company for their services during the year (2019: £nil). The total emoluments received for services as a director of the group are as follows:

| | Group 2020 | Group 2019 |
|---|-----------------------|---------------|
| | £'000 | £'000 |
| Aggregate emoluments including benefits | 789 | 1,054 |
| | <hr/> <hr/> | <hr/> <hr/> |

No directors accrued retirement benefits under money purchase or defined benefit pension schemes. Certain directors received no emoluments from the group for their services.

The aggregate of remuneration, excluding share based payments, for the highest paid director was £566,000 (2019: £562,000), which included benefits in kind of £11,000 (2019: £6,000).

9 Other income

Other income principally represents amounts received from Scottish health boards to assist in the upkeep of premises and is based on the proportion of NHS treatment carried out by a dental practice. Income is also received from property rentals.

10 Other net losses

| | Group 2020 | Group 2019 |
|--|-----------------------|---------------|
| | £'000 | £'000 |
| Unrealised gains/(losses) at fair value through profit or loss on foreign exchange forward contracts | 768 | (312) |
| Realised foreign exchange losses | (908) | (63) |
| | <hr/> | <hr/> |
| | (140) | (375) |
| | <hr/> <hr/> | <hr/> <hr/> |

Notes to the consolidated financial statements *(continued)*

11 Finance costs

| | Group 2020 £'000 | Group 2019 £'000 |
|--|---------------------------------|------------------------|
| <i>Recurring finance costs</i> | | |
| Senior secured fixed rate notes | 17,188 | 17,188 |
| Senior secured floating rate notes | 10,343 | 10,264 |
| Second lien notes | 12,383 | 12,350 |
| Bank loans and overdrafts | 1,241 | 411 |
| Amortisation of debt issue costs and related fees | 1,825 | 1,761 |
| Other interest payable – unwinding of discount (notes 17, 25, 32) | 4,455 | 130 |
| Syndicate charges | 975 | 1,214 |
| Finance expense in respect of defined benefit pension scheme (note 33) | 14 | 13 |
| | <hr/> 48,424 <hr/> | <hr/> 43,331 <hr/> |

12 Finance income

| | Group 2020 £'000 | Group 2019 £'000 |
|-----------------------|---------------------------------|------------------------|
| Bank deposit interest | 56 | 39 |
| | <hr/> 56 <hr/> | <hr/> 39 <hr/> |

Notes to the consolidated financial statements *(continued)*

13 Income tax charge/(credit)

| | Group 2020 £'000 | Group 2019 £'000 |
|--|---------------------------------|------------------------|
| Current income tax | | |
| Current charge for the year | - | - |
| | <hr/> | <hr/> |
| Deferred income tax | | |
| Origin and reversal of temporary differences | (9,552) | (8,173) |
| Adjustments in respect of previous years | 11,367 | (1,560) |
| Effect of change in income tax rate | 2,601 | - |
| Deferred tax not recognised | 4,241 | - |
| | <hr/> | <hr/> |
| Total deferred income tax (note 26) | 8,657 | (9,733) |
| | <hr/> | <hr/> |
| Total income tax charge/(credit) | 8,657 | (9,733) |
| | <hr/> <hr/> | <hr/> <hr/> |

The income tax charge for the financial year is higher (2019: higher) than the standard rate of corporation tax in the UK for the year ended 31 March 2020 of 19% (2019: 19%). The differences are explained below:

| | Group 2020 £'000 | Group 2019 £'000 |
|--|---------------------------------|------------------------|
| Loss before income tax | (131,810) | (83,252) |
| | <hr/> | <hr/> |
| Loss before income tax multiplied by the standard rate of corporation tax in the UK of 19% (2019: 19%) | (25,044) | (15,818) |
| | <hr/> | <hr/> |
| Effects of: | | |
| Expenses not deductible for tax | 16,367 | 7,488 |
| Utilisation of losses not previously recognised | 6 | (2) |
| Effect of rate changes on opening balances | 2,601 | - |
| Adjustments in respect of previous years | 11,367 | (1,560) |
| Unrelieved losses carried forwards | (881) | 159 |
| Deferred tax not recognised | 4,241 | - |
| | <hr/> | <hr/> |
| Total income tax charge/(credit) for the year | 8,657 | (9,733) |
| | <hr/> <hr/> | <hr/> <hr/> |

Expenses not deductible for tax principally include the impairment of goodwill which is not tax deductible. The adjustment in respect of previous years relates to writing down the value of future tax deductions arising from the goodwill amortisation associated with partnership acquisitions. Deferred tax not recognised relates to capital allowances allocated to replace previous claims for goodwill amortisation.

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 asset and liability at 31 March 2020 have been calculated at 19% (2019: 17%).

Please also refer to note 3(b) for further details of estimates that have been made in respect of the application of certain tax laws.

Notes to the consolidated financial statements *(continued)*

14 Parent company result

The company has taken advantage of Section 408(4) of the Companies Act 2006 and consequently an income statement for the company is not presented.

The company's loss of £172,023,000 (2019: £9,000) arises from the company's share of the group audit fee (£16,000) and, following a review of its carrying value of the company's investments in subsidiaries, the full provision against the carrying value of £172,007,000 (2019: £nil).

15 Intangible assets

Group

| | Goodwill £'000 | Contractual arrangements £'000 | Customer relationships £'000 | Brands and trademarks £'000 | Total £'000 |
|---|---------------------------|---|---|--|------------------------|
| Cost | | | | | |
| At 1 April 2018 | 308,012 | 468,514 | 67,612 | 25,765 | 869,903 |
| Re-measurement of provisional amounts from prior year business combinations | 284 | - | - | - | 284 |
| Disposals | (10,628) | (10,844) | (1,247) | - | (22,719) |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| At 31 March 2019 | 297,668 | 457,670 | 66,365 | 25,765 | 847,468 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |
| Accumulated amortisation | | | | | |
| At 1 April 2018 | 60,103 | 148,162 | 33,890 | 7,118 | 249,273 |
| Charge for the year | - | 22,820 | 6,427 | 1,694 | 30,941 |
| Impairment charge | 13,280 | 3,016 | - | - | 16,296 |
| Disposals | - | (3,643) | (650) | - | (4,293) |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| At 31 March 2019 | 73,383 | 170,355 | 39,667 | 8,812 | 292,217 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |
| Net book value | | | | | |
| At 31 March 2019 | 224,285 | 287,315 | 26,698 | 16,953 | 555,251 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |
| | | | | | |
| | Goodwill £'000 | Contractual arrangements £'000 | Customer relationships £'000 | Brands and trademarks £'000 | Total £'000 |
| Cost | | | | | |
| At 1 April 2019 | 297,668 | 457,670 | 66,365 | 25,765 | 847,468 |
| Disposals | (4,609) | (4,547) | (485) | - | (9,641) |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| At 31 March 2020 | 293,059 | 453,123 | 65,880 | 25,765 | 837,827 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |
| Accumulated amortisation | | | | | |
| At 1 April 2019 | 73,383 | 170,355 | 39,667 | 8,812 | 292,217 |
| Charge for the year | - | 22,437 | 6,393 | 1,695 | 30,525 |
| Impairment charge | 77,613 | 1,440 | - | - | 79,053 |
| Disposals | - | (1,375) | (225) | - | (1,600) |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| At 31 March 2020 | 150,996 | 192,857 | 45,835 | 10,507 | 400,195 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |
| Net book value | | | | | |
| At 31 March 2020 | 142,063 | 260,266 | 20,045 | 15,258 | 437,632 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |

Notes to the consolidated financial statements (continued)

15 Intangible assets (continued)

All amortisation charges have been included within administrative expenses in the income statement.

The weighted average unamortised useful life of intangible assets at 31 March 2020 was 11.6 years (2019: 13.0 years).

Cash Generating Units ('CGUs')

After considering all the evidence available, including the activities from which the group generates cash inflows and how management monitors business performance, the directors have concluded that the group's two CGUs are {my}dentist and DD. An analysis of the net book value of goodwill by CGU is shown below:

| Net book value of goodwill by CGU | Group 2020 £'000 | Group 2019 £'000 |
|-----------------------------------|------------------------|------------------------|
| {my}dentist | 120,084 | 202,306 |
| DD | 21,979 | 21,979 |
| | <u>142,063</u> | <u>224,285</u> |

Annual impairment review

The annual impairment review for goodwill is based on an assessment of each CGU's fair value based on value in use models. These values are calculated from cash flow projections, normally based on budgets covering a minimum period of 12 months and a maximum period of 5 years which have been approved by the Board of Directors. The cash flow projection for FY2021 has been adjusted from budget to reflect the latest forecast for the year following the disruption caused by the Covid-19 pandemic. The effect of the pandemic has also been considered in reviewing the long term cash flow projections and growth prospects for specific revenue categories.

Cash flows outside of the budgeted period are estimated using the long-term growth rates stated below. Individual long-term growth rates are applied to each CGU. The long-term growth rates applied do not exceed the long-term average growth rate for the market in which the CGU operates.

The directors have assessed the appropriate discount rate for each individual CGU, using a Weighted Average Cost of Capital ('WACC') for comparable companies operating in similar markets to the group. This 'base' WACC has been adjusted to reflect risks specific to each CGU. The discount rates applied are as shown below.

Key assumptions that underpin the cash flow projections have been cut back from previous reviews to reflect the effect of Covid-19. These include the level of revenue contracted with the NHS and the associated UDA contract delivery percentage, anticipated growth in private revenues and revenues from DD and the associated cost of materials, dentist fees and staff costs. These assumptions have been set by reference to historical trends and then discounted to reflect likely lower levels of activity and a period of recovery following the lockdown in the UK during Q1 FY2021. The cash flow projections also take account of the expected impact from committed efficiency initiatives and the stability and maturity of the markets in which each CGU operates.

| Key assumptions by CGU | Group 2020 % | Group 2019 % |
|------------------------------|--------------------|--------------------|
| Long term growth rate | | |
| {my}dentist | 1.50 | 1.50 |
| DD | 1.50 | 1.50 |
| | <u> </u> | <u> </u> |
| Discount rate | | |
| {my}dentist | 9.72 | 9.52 |
| DD | 10.95 | 10.59 |
| | <u> </u> | <u> </u> |

Notes to the consolidated financial statements *(continued)*

15 Intangible assets *(continued)*

Annual impairment review *(continued)*

At each reporting date an impairment review was performed by comparing the estimated recoverable amount of each CGU with its carrying amount, including goodwill. The impairment review at 31 March 2020 has identified an impairment to the carrying value of the goodwill in the {my}dentist CGU totalling £77.6 million. An impairment of £13.3 million was identified against the carrying value of the goodwill in DD CGU for the year ended 31 March 2019.

The impairment review performed at 31 March 2020 was based upon discounted cash flow forecasts, derived from management's strategic plan for the medium term but discounted for the impact of the coronavirus. The {my}dentist plan was flexed to reflect no change in UDA volumes and only a limited price increase each year of 1.20%. For the year ended 31 March 2020, the UDA delivery percentage before handbacks was 79.3% (2019: 80.0%). The plan for FY2021 has been adjusted to reflect the NHS contract arrangements in Q1 with payment subject to a reduction of 16.75% for variable costs not incurred during the period of the suspension of routine treatments and the 100% contract payment for Q2 to reflect the low level of UDAs it would be possible to deliver while maintaining the required one hour fallow period after AGP, as well as the increased costs of PPE. The original plan also included forecasts for the continued growth of new private revenue initiatives such as growth in {my}options, clear aligners and implants at 10-15% per annum. This has been reduced to 1.0% to reflect only low volume growth and limited price increases in the coronavirus adjusted scenario.

DD adjusted EBITDA has significantly improved in FY2020 compared to FY2019. The cash flow forecast for DD has not been discounted for coronavirus for the impairment review as management have been able to replace lost trade with "High Street" dental practices and corporate groups during lockdown with a pivot towards large PPE supply arrangements with the NHS Supply Chain, Police buying groups and other public authorities. Following the impairment to DD goodwill in FY2019, the value in use calculation for FY2020 results in headroom of £4.9 million over the net book value of goodwill and intangible assets.

As part of the impairment review, management have considered the impact upon the calculations from a range of sensitivities to the key assumptions. As at 31 March 2020, a change of £2.0 million in the assumed long term annual pre-tax cash flows generated from the {my}dentist CGU, would change the calculated value in use by approximately £13.0 million. A change of 0.25% in the assumed WACC would change the calculated value in use by approximately £13.2 million.

As at 31 March 2020, a change of £0.5 million to the assumed long term annual pre-tax cash flows generated from the DD CGU would change the calculated value in use by approximately £2.7 million. A reduction of greater than £0.9 million in the assumed long term annual pre-tax cash flows would lead to an impairment. A change of 0.25% in the assumed WACC would also change the calculated value in use by approximately £2.0 million.

During the year ended 31 March 2020, the group has agreed some further permanent contract hand-backs with the relevant NHS Regions, principally relating to dental practices which have consistently failed to deliver the contractual volumes due to structural issues such as a shortage of patients, or where there are persistent dentist shortages, making it difficult to recruit. Where we have agreed these permanent contract hand-backs, management have reduced the carrying value of the associated contractual arrangement intangible asset, to reflect this reduced earning potential. This has resulted in a total impairment charge of £1.4 million being recorded in the income statement for the year ended 31 March 2020 (2019: £3.0 million).

For other intangible assets with finite useful lives, the directors have considered whether any indicators of impairment of these assets were present at each balance sheet date. Other than the specific impairments noted above, no indicators of impairment have been identified.

Company

The company does not own any intangible assets (2019: none). However, based on the above assessment, the company has reviewed the carrying value of its investments in subsidiaries and concluded that the fair value of those subsidiaries is less than the group's net debt, and has therefore provided in full against the carrying value of investments in subsidiaries (see note 18).

Notes to the consolidated financial statements *(continued)*

16 Property, plant and equipment

Group

| | Fixtures, fittings and equipment £'000 |
|---------------------------------|---|
| Cost | |
| At 1 April 2018 | 199,321 |
| Additions | 26,039 |
| Disposals | (4,354) |
| | <hr/> |
| At 31 March 2019 | 221,006 |
| | <hr/> <hr/> |
| Accumulated depreciation | |
| At 1 April 2018 | 106,888 |
| Charge for the year | 21,116 |
| Disposals | (2,173) |
| | <hr/> |
| At 31 March 2019 | 125,831 |
| | <hr/> <hr/> |
| Net book value | |
| At 31 March 2019 | 95,175 |
| | <hr/> <hr/> |

| | Fixtures, fittings and equipment £'000 |
|---------------------------------|---|
| Cost | |
| At 1 April 2019 | 221,006 |
| Additions | 27,730 |
| Disposals | (3,318) |
| | <hr/> |
| At 31 March 2020 | 245,418 |
| | <hr/> <hr/> |
| Accumulated depreciation | |
| At 1 April 2019 | 125,831 |
| Charge for the year | 21,745 |
| Disposals | (1,960) |
| | <hr/> |
| At 31 March 2020 | 145,616 |
| | <hr/> <hr/> |
| Net book value | |
| At 31 March 2020 | 99,802 |
| | <hr/> <hr/> |

As at 31 March 2020, no assets are held under finance leases or hire purchase contracts (2019: none).

All depreciation charges have been included within administrative expenses in the income statement.

Please refer to note 24 for more information about assets pledged as security in respect of group borrowings.

Company

The company does not own any property, plant and equipment (2019: none).

Notes to the consolidated financial statements (continued)

17 Leases

Right of use assets

Group

| | Land and buildings £'000 | Motor vehicles £'000 | Other £'000 | Total £'000 |
|-----------------------------------|--------------------------------|----------------------------|----------------|----------------|
| Cost | | | | |
| At 1 April 2019 | - | - | - | - |
| Recognised on adoption of IFRS 16 | 95,076 | 1,235 | 80 | 96,391 |
| Additions | 3,393 | 648 | - | 4,041 |
| | <u>98,469</u> | <u>1,883</u> | <u>80</u> | <u>100,432</u> |
| At 31 March 2020 | 98,469 | 1,883 | 80 | 100,432 |
| Accumulated Depreciation | | | | |
| At 1 April 2019 | - | - | - | - |
| Charge for the year | 11,191 | 693 | 29 | 11,913 |
| Impairment charge | 483 | - | - | 483 |
| | <u>11,674</u> | <u>693</u> | <u>29</u> | <u>12,396</u> |
| At 31 March 2020 | 11,674 | 693 | 29 | 12,396 |
| Net book value | | | | |
| At 31 March 2020 | 86,795 | 1,190 | 51 | 88,036 |

Lease liability

| | £'000 |
|-----------------------------------|---------------|
| As at 1 April 2019 | - |
| Recognised on adoption of IFRS 16 | 100,280 |
| Rental and operating lease costs | (15,008) |
| Lease additions | 4,041 |
| Interest on lease liability | 4,412 |
| | <u>93,725</u> |
| As at 31 March 2020 | 93,725 |

The present value of the lease liability is as follows:

| | 2020 £'000 | 2019 £'000 |
|----------------------------|---------------|---------------|
| Within one year | 14,333 | - |
| Between two and five years | 41,314 | - |
| Over five years | 38,078 | - |
| | <u>93,725</u> | <u>-</u> |

For all adjustments recognised on adoption of IFRS 16 on 1 April 2019, please refer to the Accounting Policies section. On an IAS 17 basis, the lease charge difference, net of onerous lease provision credits, would have been £14.1 million.

An interest charge of £4.4 million has been charged to finance costs in relation to the unwinding of the discount on the lease liability. The expense relating to leases of low-value assets that are not shown above as short-term leases was £0.5 million. The expense relating to variable lease payments not included in lease liabilities was £nil. Income recognised from subleasing was £0.3 million. The total cash outflow for leases for the year was £15.0 million.

Notes to the consolidated financial statements (continued)

17 Leases (continued)

The following is a reconciliation between operating lease commitments disclosed at 31 March 2019 with the lease liabilities recognised at 1 April 2019:

| | £'000 |
|---|----------------|
| Total operating lease commitments disclosed under IAS 17 at 31 March 2019 | 120,991 |
| Short term/low value leases recognised on a straight line basis as an expenses | (1,890) |
| Extension options reasonably certain to exercise | 5,253 |
| The effect of discounting at the group's incremental borrowing rate at 1 April 2019 | (32,751) |
| Other adjustments | 8,677 |
| | <hr/> |
| Total lease liabilities recognised under IFRS 16 at 1 April 2019 | 100,280 |
| | <hr/> <hr/> |

Other adjustments reflect changes to lease liabilities for updates to rent review periods and changes in lease terms and charges during the year.

18 Investments

Company

| | £'000 |
|--|-------------|
| Investment at cost in subsidiary undertakings | |
| At 1 April 2019 | 172,007 |
| Less provision charged in the current year | (172,007) |
| | <hr/> |
| At 31 March 2020 | - |
| | <hr/> <hr/> |

The company owns 100% of its immediate subsidiaries, Turnstone Bidco 1 Limited and IDH Finance Plc.

The cost and book value of its investment in Turnstone Bidco 1 Limited is £171,957,479 (2019: £171,957,479). The cost and book value of its investment in IDH Finance plc is £50,000 (2019: £50,000). Following the impairment review of the group goodwill and intangible assets referred to in note 15, the carrying value of investments in subsidiaries has also been reviewed, and has been fully provided against in the current year on the basis that the fair value of the Midco group is estimated to be less than the Midco group debt. Should the fair value of the Midco group increase in the future then this provision can be reversed.

The table below provides details of the company's subsidiary undertakings. All companies are indirectly owned with the exception of Turnstone Bidco 1 Limited and IDH Finance Plc. All of the non-trading entities are holding companies for investments in other group companies. The group holds 100% of the ordinary share capital of all of the companies listed. All companies are included in the consolidation.

The company has provided a guarantee to the members of certain subsidiary companies (marked ¹ below), over all of their respective outstanding liabilities, under section 479C of the Companies Act 2006. As a result, having also received agreement from all members of each company, the companies identified below are exempt from audit of their individual company financial statements for the year ended 31 March 2020 by virtue of section 479A of the Companies Act 2006.

In the opinion of the directors the value of the company's investment in its subsidiaries is not less than the amount at which it is shown in the balance sheet.

| Name of subsidiary | Principal activity | Country of incorporation |
|--|--------------------|--------------------------|
| Turnstone Bidco 1 Limited | Non-trading | England ^a |
| IDH Finance Plc | Group financing | England ^a |
| ² @TheDentist Ltd | Dormant | England ^a |
| ² 1A Dental Practice Limited | Dormant | England ^a |
| ¹ Adelstone Dental Care Limited | Dental practices | England ^a |
| ² ADP Ashford Ltd | Dormant | England ^a |
| ¹ ADP Healthcare Acquisitions Limited | Non-trading | England ^a |
| ² ADP Healthcare Limited | Dormant | England ^a |
| ¹ ADP Healthcare Services Limited | Non-trading | England ^a |
| ¹ ADP Holdings Limited | Non-trading | England ^a |
| ¹ ADP No.1 Limited | Non-trading | England ^a |

Notes to the consolidated financial statements (continued)

18 Investments (continued)

| Name of subsidiary | Principal activity | Country of incorporation |
|--|-------------------------------|-------------------------------|
| ² ADP Yorkshire Ltd | Dormant | England ^a |
| ¹ Aesthetic Dental Care Limited | Dental practices | England ^a |
| ¹ Aesthetix Limited | Dental practices | England ^a |
| ¹ Alemdent Limited | Dental practices | England ^a |
| ¹ Alison Brett Dental Care LLP | Dental practices | England ^a |
| ² A-Z Dental Holdings (Subsidiary Number1) Limited | Dormant | England ^a |
| ² A-Z Dental Holdings (Subsidiary Number 2) Limited | Dormant | England ^a |
| ¹ A-Z Dental Holdings Limited | Non-trading | England ^a |
| ³ BF Mulholland Ire Limited | Dormant | Ireland ^f |
| ¹ BF Mulholland Limited | Healthcare goods and services | Northern Ireland ^c |
| ² Bramora Limited | Dormant | England ^a |
| ² Butler and Finnigan Dental Practice Ltd | Dormant | England ^a |
| ¹ Castle Hill Dental Practice Limited | Dental practices | England ^a |
| Chapel Road Orthodontics Limited | Dental practices | England ^a |
| ¹ Church Street Dentists Limited | Dental practices | England ^a |
| ¹ Clarendon Dental Practice Limited | Dental practices | England ^a |
| Community Dental Centres Limited | Dental practices | England ^a |
| ¹ Confident Dental Practices Limited | Dental practices | England ^a |
| ¹ Cromwell Dental Practice Limited | Dental practices | England ^a |
| ¹ D and L Jordan Limited | Dental practices | England ^a |
| ¹ D M Jordan Limited | Dental practices | England ^a |
| DBG (UK) Limited | Healthcare goods and services | England ^a |
| DBG Acquisitions Limited | Non-trading | England ^g |
| ² DBG Subsidiary Limited | Dormant | England ^a |
| DBG Topco Limited | Non-trading | England ^a |
| DD Products and Services Ltd (formerly Billericay Dental Supply Co. Limited) | Healthcare goods and services | England ^g |
| DD Group Holdings Ltd (formerly H M Logistics Limited) | Healthcare goods and services | England ^a |
| ¹ Dental Aesthetics Ltd | Dental practices | Northern Ireland ^c |
| ¹ Dental Excellence Group Ltd | Non-trading | Northern Ireland ^c |
| ¹ Dental Excellence Ltd | Dental practices | Northern Ireland ^c |
| ² Dental Health Care Limited | Dormant | England ^a |
| ² Dental Talent Tree (Recruitment) Limited | Dormant | England ^a |
| Denticare Limited | Dental practices | England ^a |
| ² Denticare Properties Limited | Dormant | England ^a |
| ² Denture Excellence (Franchising) Limited | Dormant | England ^a |
| Denture Excellence Limited | Dental practices | England ^a |
| ¹ DH Dental Holdings Limited | Non-trading | England ^a |
| ¹ Diverse Acquisitions Limited | Non-trading | England ^a |
| ¹ Diverse Holdings Limited | Non-trading | England ^a |
| ² Diverse Property Investments Limited | Dormant | England ^a |
| ¹ DM and LJ Jordan Limited | Dental practices | England ^a |
| DMJ Norwich Limited | Dental practices | England ^a |
| ¹ Dolby Medical EBT Trustee Limited | Non-trading | Scotland ^b |
| ¹ Dolby Medical Limited | Equipment servicing | Scotland ^b |
| ¹ Du Toit and Burger Partnership (Harwich) Ltd | Dental practices | England ^a |
| ¹ Du Toit and Burger Partnership (Ipswich) Ltd | Dental practices | England ^a |
| ¹ Du Toit and Burger Partnership (Silvertown) Ltd | Dental practices | England ^a |
| ¹ Du Toit and Burger Partnership (Stratford) Ltd | Dental practices | England ^a |
| ¹ Du Toit and Burger Partnership (Sudbury) Ltd | Dental practices | England ^a |
| ¹ Du Toit and Burger Partnership Limited | Dental practices | England ^a |
| ¹ Durgan and Ashworth Dental Care Limited | Dental practices | England ^a |
| ¹ Euxton (No 1) Limited | Dental practices | England ^a |
| ¹ Falchion Orthodontics Limited | Dental practices | England ^a |
| ¹ Fallowfield (No 1) Limited | Dental practices | England ^a |
| ¹ Family Dental Care Limited | Dental practices | Scotland ^b |
| Ffolliot Bird Associates Limited | Dental practices | England ^a |
| First Choice Dental Limited | Dental practices | England ^a |
| ¹ Flagstaff Dental Clinic Limited | Dental practices | England ^a |
| ¹ Fleetwood Practice Limited | Dental practices | England ^a |
| ² Hackremco (No.2637) Limited | Dormant | England ^a |
| ¹ Halldent Limited | Dental practices | England ^a |
| ² Handpiece Express Limited | Dormant | England ^g |
| ² Hayle Dental Practice Limited | Dormant | England ^a |

Notes to the consolidated financial statements (continued)

18 Investments (continued)

| Name of subsidiary | Principal activity | Country of incorporation |
|---|---|-------------------------------|
| Healthcare Buying Group Limited | Non-trading | England ^g |
| ¹ Hessle Grange Dental Care Limited | Dental practices | England ^a |
| ¹ Hillcrest Ionian Limited | Dental practices | England ^a |
| ¹ Hirst and O'Donnell Ltd | Dental practices | England ^a |
| ¹ IDH 324 & 325 Ltd | Dental practices | England ^a |
| ¹ IDH 331 Ltd | Dental practices | England ^a |
| ² IDH 341 Ltd | Dormant | England ^a |
| ¹ IDH 346 Ltd | Dental practices | England ^a |
| ¹ IDH 363 Limited | Dental practices | England ^a |
| ¹ IDH 403 Ltd | Dental practices | England ^a |
| ¹ IDH 406 Ltd | Dental practices | England ^a |
| ¹ IDH 418 Ltd | Dental practices | England ^a |
| ¹ IDH 437 Ltd | Dental practices | England ^a |
| ¹ IDH 441 to 444 Ltd | Dental practices | England ^a |
| ¹ IDH 449 Limited | Dental practices | England ^a |
| ¹ IDH 450 Limited | Dental practices | England ^a |
| ¹ IDH 474 Limited | Dental practices | England ^a |
| ¹ IDH 476 Limited | Dental practices | England ^a |
| ¹ IDH 477 Limited | Dental practices | England ^a |
| ¹ IDH 622 Limited | Dental practices | England ^a |
| IDH Acquisitions Limited | Non-trading | England ^a |
| IDH Group Limited | Non-trading | England ^a |
| IDH Limited | Dental practices | England ^a |
| ¹ IDH Mansfield Limited | Dental practices | England ^a |
| Integrated Dental Holdings Limited | Non-trading | England ^a |
| ¹ Jackro Healthcare Services Limited | Dental practices | England ^a |
| KH&GW Limited | Dental practices | England ^a |
| M C Dentistry Limited | Dental practices | England ^a |
| ¹ Maidwell Dental Practice Limited | Dental practices | England ^a |
| ¹ Mainstone Health Limited | Dental practices | England ^a |
| ¹ Manchester Orthodontists Limited | Dental practices | England ^a |
| Med-FX Ltd | Distributor of facial aesthetics products | England ^g |
| ¹ Mi-Tec Ltd | Equipment repair | England ^g |
| ² Mintek UK Ltd | Dormant | England ^g |
| ¹ Murgelas Practice Management Limited | Dental practices | England ^a |
| ² My Dental Holdings Limited | Non-trading | England ^a |
| ² MyDentist Limited | Dormant | England ^a |
| ¹ N S Dental Ltd | Dental practices | Scotland ^b |
| ¹ Natural Management Ltd | Non-trading | England ^a |
| ¹ Offerton Fold Dental Practice Ltd | Dental practices | England ^a |
| ¹ Olivers Dental Studio Limited | Dental practices | England ^a |
| Orthocentres Limited | Dental practices | England ^a |
| Orthodontic Centre (UK) Limited | Dental practices | England ^a |
| ¹ Orthodontic Services Limited | Dental practices | Northern Ireland ^c |
| Orthoworld 2000 Limited | Dental practices | England ^a |
| ¹ Orthoworld Limited | Non-trading | England ^a |
| ² OurDentist Ltd | Dormant | England ^a |
| ¹ Padgate (No 1) Limited | Dental practices | England ^a |
| ¹ Palmerston Precinct Practice Limited | Dental practices | England ^a |
| ¹ Pearl Bidco Limited | Non-trading | England ^a |
| ³ Pearl Cayman 1 Limited | Non-trading | Cayman Islands ^e |
| ³ Pearl Cayman 2 Limited | Non-trading | Cayman Islands ^e |
| ¹ Pearl Topco Limited | Non-trading | England ^a |
| Petrie Tucker and Partners Limited | Dental practices | Scotland ^{4,b} |
| ¹ Phoenix Dental Limited | Dental practices | England ^a |
| ¹ Phoenix Dental Practice Limited | Dental practices | England ^a |
| ¹ Pierce & Geddes Limited | Dental practices | England ^a |
| ¹ PJ Burrige Ltd | Dental practices | England ^a |
| ¹ Premier Dental Limited | Dental practices | England ^a |
| ¹ Priory House Dental Care Limited | Dental practices | England ^a |
| Q Dental Care Limited | Dental practices | England ^a |
| ² Q Dental Surgeries Limited | Dormant | England ^a |
| ¹ Queensferry Dental Surgery Limited | Dental practices | England ^a |

Notes to the consolidated financial statements (continued)

18 Investments (continued)

| Name of subsidiary | Principal activity | Country of incorporation |
|--|-------------------------------|-------------------------------|
| Richard Flanagan & Associates Limited | Dental practices | England ^a |
| ¹ Richmond House Practice Limited | Dental practices | England ^a |
| Romford Orthodontics Centre Limited | Dental practices | England ^a |
| ¹ S L S Dental Care Limited | Dental practices | England ^a |
| ¹ Shadeshire Limited | Non-trading | England ^a |
| ¹ Silverdale Dental Care Ltd | Dental practices | England ^a |
| ² Smile Dental Practices Limited | Dormant | England ^a |
| ¹ South Tyneside Smiles Limited | Dental practices | England ^a |
| ² Speed 8599 Limited | Dormant | England ^a |
| ² Speed 8600 Limited | Dormant | England ^a |
| SRDP Limited | Dental practices | England ^a |
| ¹ Stalbridge Dental Practice Limited | Dental practices | England ^a |
| ¹ Stunning Smiles Ltd | Dental practices | Northern Ireland ^c |
| ¹ TAG Medical Limited | Medical equipment and testing | England ^g |
| ¹ The Bristol Endodontic Clinic Limited | Dental practices | England ^a |
| The Crescent Specialist Dental Centre Ltd | Dental practices | England ^a |
| The Dental Directory Limited | Non-trading | England ^g |
| The Domiciliary Dental Practice Limited | Dental practices | England ^a |
| ¹ The Plains' Dental Practice Limited | Dental practices | England ^a |
| ¹ The Village Practice Ltd | Dental practices | England ^a |
| ¹ The Visiting Dental Service Ltd | Dental practices | England ^a |
| ¹ Tully Crine Limited | Dental practices | England ^a |
| ¹ Unnati Limited | Dental practices | England ^a |
| ² Unodent Ltd | Dormant | England ^g |
| ² Viren Patel and Associates Limited | Dormant | England ^a |
| ¹ Westhoughton (No 1) Limited | Dental practices | England ^a |
| ¹ Westpark Dental Practice Limited | Dental practices | England ^a |
| ¹ White Dental Care Ltd | Dental practices | Northern Ireland ^c |
| Whitecross Dental Care Limited | Dental practices | England ^a |
| ¹ Whitecross Group Limited | Non-trading | England ^a |
| ¹ Whitecross Healthcare Limited | Non-trading | England ^a |
| ² Whitecross Supplies Limited | Dormant | England ^a |
| ¹ Wishaw Cross Dental Care Limited | Dental practices | Scotland ^b |
| ³ X-Dent Limited | Healthcare goods and services | Jersey ^d |

¹ Company exempt from audit under section 479A of the Companies Act 2006

² Company exempt from audit under section 480 of the Companies Act 2006

³ Company exempt from audit by virtue of the legislation in the country of incorporation.

⁴ Countries of operation are England, Scotland and Wales

^a Registered office address: Europa House, Europa Trading Estate, Stoneclough Road, Kearsley, Manchester, M26 1GG

^b Registered office address: 1 Johnston Street, Paisley, Renfrewshire, Scotland, PA1 1XQ

^c Registered office address: c/o A&L Goodbody Solicitors, 6th Floor, 42-46 Fountain Street, Belfast, BT1 5EF

^d Registered office address: PO Box 771, Ground Floor, Colomberie Close, St Helier, Jersey, JE4 0RX

^e Registered office address: c/o Intertrust Corporate Services (Cayman) Limited, 190 Elgin Avenue, George Town, Grand Cayman KY1-9005, Cayman Islands

^f Registered office address: The Black Church, St Mary's Place, Dublin 7, D07P4AX

^g Registered office address: 6 Perry Way, Witham, England, CM8 3SX

In addition to the limited companies listed above, the company controls the following partnerships, all of which are engaged in dental practice activities, through the appointment of members of the management team as partners, acting on behalf of certain group companies:

| Name of partnership | Name of partnership |
|--|---|
| 1A Group Dental Practice Partnership | Red Rose Dental Group |
| Ardent Dental Care Practice Partnership | Rhyl and Abergele Elwy Dental Partnership |
| Armley Dental Practice Partnership | Ripponden Road Dental Practice Partnership |
| Aspire Dental Practice Partnership | Risley Hill Dental Centre Partnership |
| *Avante Dental Care Practice Partnership | River Wye Dental Practice Partnership |
| Avondale Dental Practice Partnership | Roe Lane Family Dental Practice Partnership |
| Bank House Dental Practice Partnership | Severn Street Dental Practice Partnership |
| *Berwick Dental Practice Partnership | Shaw Family Dental Practice Partnership |

Notes to the consolidated financial statements *(continued)*

18 Investments *(continued)*

Name of partnership

Bolton and Bury Dental Practice Partnership
Brassey Avenue Dental Practice Partnership
Brinsworth Lane Dental Care Partnership
Brixton Hill Dental Practice Partnership
Broadwalk Dental Centre Partnership
Carcroft Dental Practice Partnership
Castle View House Dental Practice Partnership
*Central Dental Practice Partnership
Chequer Hall Dental Practice Partnership
Colne & Earby Dental Practice Partnership
Cottage Dental Practice Partnership
Crown Dental Practice Partnership
Dalton Dental Surgery Partnership

Effingham Square Dental Practice Partnership

Finchley Dental Care Practice Partnership
Florence House Dental Practice Partnership
Front Street Dental Practice Partnership
Green Lane Dental Practice Partnership

Hampton Court Dental Centre Partnership
Harbour Dental Practice Partnership
Haslingden Dental Surgery Partnership
Hayle Dental Practice Partnership
Heaton Road and Blakelaw Dental Practice Partnership
Henfield Dental Practice Partnership
High Street Dental Practice Partnership
Hollinwood Dental Practice Partnership
*Ingleby Meadow Dental Practice Partnership
Jefferies Reed and Associates
JF Scott Dental Surgeon Partnership
Kettering Central Dental Practice Partnership
Lambert Coutts & Associates Dental Practice Partnership
Low Fell Dental Practice Partnership
Mayo Dental Clinic Partnership
Mill Dental Practice Partnership
Mostyn House Dental Practice Partnership
Mount Folly Square Dental Practice Partnership
Narborough Road South Dental Practice Partnership
*Newcastle and Wallsend Dental Practice Partnership
North Marine Road Dental Practice Partnership
Northgate Dental Health Practice Partnership
Old Brewery Yard Dental Practice Partnership
Picton Road Dental Practice Partnership
Railway Road Dental Practice Partnership

Name of partnership

SK Dental Staines Road Dental Practice Partnership
Sneyd Green Dental Practice Partnership
South England Dental Practice Partnership
Spital Hill Dental Surgery Practice Partnership
Stanhope Road Dental Practice Partnership
The Bell Lane Practice
The Boulevard Dental Practice Partnership
The Burnby Dental Practice Partnership
The Burnham Dental Practice Partnership
The Caulfield Dental Surgery Partnership
The Church House Dental Practice Partnership
*The Cowpen and Waterloo Dental Practice Partnership
The Crab Tree Lane and Church Street Dental Practice Partnership
The Crossgates Lane and Chapeltown Road Dental Practice Partnership
The Dental Surgery Partnership
The Fairfield Dental Practice Partnership
The Gairloch House Dental Practice Partnership
The Grainger Stockton , Birtley and Stanley Dental Practice Partnership
The Haverflatts Lane Dental Practice Partnership
The Helston Dental Practice Partnership
The Kenton Park Dental Practice Partnership
The Killingworth Dental Practice Partnership
The Kings Norton Dental Practice Partnership
The Lacey Dental Practice Partnership
The Loddon Dental Practice Partnership
The London Road Dental Practice Partnership
The Lypard Dental Centre Practice Partnership
The Marden House Dental Practice Partnership
The Peterborough Dental Practice Partnership
The Peterlee Dental Practice Partnership
The Pon Dental Surgery Dental Practice Partnership
The Sea Road Dental Practice Partnership
The Severnside Dental Practice Partnership
The Southwick and Whitburn Dental Practice Partnership
The Trewergie Dental Practice Partnership
The Warner Street Dental Practice Partnership
Tower Gardens Dental Practice Partnership
Trinity Terrace Dental Practice Partnership
VI Dental Centre Partnership
*West Lodge Dental Practice Partnership
Westbury Park Dental Practice Partnership
Whiston Village Dental Practice Partnership
Woodview Dental Health Practice Partnership

All of the above partnerships have their registered office address at: Europa House, Europa Trading Estate, Stoneclough Road, Kearsley, Manchester, M26 1GG.

**The NHS contract within this partnership has been novated into a group company on 1 April 2020 and has therefore ceased to trade from that date.*

Group

The group does not own any investments (2019: none).

Notes to the consolidated financial statements *(continued)*

19 Inventories

| | Group 2020 £'000 | Group 2019 £'000 |
|-----------------------------|---------------------------------|------------------------|
| Dental practice consumables | 4,974 | 5,000 |
| Goods for resale | 20,079 | 23,400 |
| | <hr/> 25,053 <hr/> | <hr/> 28,400 <hr/> |

Inventories are shown net of provisions of £2,697,000 at 31 March 2020 in respect of obsolete or slow moving items (2019: £1,586,000).

The cost of inventories recognised as an expense within cost of sales during the year amounted to £113.9 million (2019: £94.7 million).

The amount recognised within cost of sales during the year in respect of the change in the value of inventories of dental practice consumables and goods for resale was a charge of £3,347,000 (2019: £7,130,000 credit).

The replacement cost of inventories are not materially different to its carrying value.

Company

The company has no inventories (2019: £nil).

Notes to the consolidated financial statements *(continued)*

20 Trade and other receivables

| | Group 2020 £'000 | Group 2019 £'000 |
|--------------------------------------|---------------------------------|------------------------|
| Current | | |
| Trade receivables | 26,636 | 17,961 |
| Amounts owed by related undertakings | 276 | 276 |
| Other assets | 5,729 | 5,545 |
| Prepayments | 4,166 | 4,837 |
| Accrued income | 14,369 | 11,113 |
| | <hr/> 51,176 <hr/> | <hr/> 39,732 <hr/> |

Amounts owed by related undertakings comprise expenses paid on behalf of Turnstone Management Investments Limited, a company registered in England and which holds investments in Turnstone Equityco 1 Limited on behalf of group management.

Accrued income includes amounts due from the NHS in England and Wales in respect of the group's long term fixed income contracts to deliver dentistry services.

The fair value of trade and other receivables is not considered to be materially different to the carrying values, with the majority of the balance being short term in nature. Trade and other receivables are considered to be past due once they have passed their contracted due date.

The carrying amounts of the group's trade and other receivables are denominated in the following currencies:

| | Group 2020 £'000 | Group 2019 £'000 |
|----------|---------------------------------|------------------------|
| Sterling | 50,123 | 39,134 |
| Euro | 1,053 | 598 |
| | <hr/> 51,176 <hr/> | <hr/> 39,732 <hr/> |

As at 31 March 2020, trade receivables of £1,239,000 were past due and/or partially impaired (2019: £2,516,000). An expected credit loss is established based on past default experience adjusted for forward looking estimates. The individually impaired receivables principally relate to businesses within DD. The allowance provision for impairment calculated previously under IAS 39 and that under IFRS 9 which became effective for periods commencing 1 January 2018 are not materially different. To calculate expected credit losses, trade receivables are grouped based on days past due.

Notes to the consolidated financial statements *(continued)*

20 Trade and other receivables *(continued)*

Trade receivables over 120 days old are categorised and provided for based on risk characteristics for example, balances passed to debt collectors, in dispute or on a payment plan have an expected loss rate of 100%, 50% and 25% respectively.

Trade receivables under 120 days old are provided against based on specific facts related to the counterparty.

The ageing of these receivables is as follows:

| | Group 2020 £'000 | Group 2019 £'000 |
|---------------------------------|---------------------------------|------------------------|
| Not overdue | 154 | - |
| One month to six months overdue | 265 | 1,317 |
| Over six months overdue | 820 | 1,199 |
| | <hr/> 1,239 <hr/> | <hr/> 2,516 <hr/> |

Movements on the provision for impairment of trade receivables during the year are as follows:

| | 2020 £'000 | 2019 £'000 |
|--------------------------------------|------------------------|-----------------|
| At 1 April | 564 | 483 |
| Amount written off on disposal | - | (33) |
| Impairment losses recognised | 338 | 268 |
| Amounts written off as uncollectable | (29) | (52) |
| Unused amounts reversed | (4) | (102) |
| | <hr/> 869 <hr/> | <hr/> 564 <hr/> |

The other classes within trade and other receivables do not contain any assets that are considered to be impaired.

Company

The company has no trade or other receivables (2019:£nil).

Notes to the consolidated financial statements (continued)

21 Cash and cash equivalents

| | Group 2020 £'000 | Company 2020 £'000 | Group 2019 £'000 | Company 2019 £'000 |
|--------------------------|---------------------------------|-----------------------------------|------------------------|--------------------------|
| Cash at bank and in hand | 76,063 | 2 | 8,861 | 40 |

Cash deposits are principally held with institutions that hold a minimum credit rating meeting two of the following: BBB+ (Standard and Poor's or Fitch); or Baa1 (Moody's). Please also refer to note 32.

The carrying amounts of the group's cash and cash equivalents are denominated in the following currencies:

| | Group 2020 £'000 | Group 2019 £'000 |
|------------------|---------------------------------|------------------------|
| Sterling | 75,003 | 8,607 |
| Euro | 964 | 171 |
| US Dollar | 36 | 15 |
| Other currencies | 60 | 68 |
| | 76,063 | 8,861 |

All of the company's cash and cash equivalents are denominated in Sterling.

22 Trade and other payables

| | Group 2020 £'000 | Company 2020 £'000 | Group 2019 £'000 | Company 2019 £'000 |
|------------------------------------|---------------------------------|-----------------------------------|------------------------|--------------------------|
| Current | | | | |
| Trade payables | 24,113 | - | 25,382 | - |
| Amounts owed to group undertakings | - | 115 | - | 99 |
| Accruals | 116,002 | - | 98,208 | - |
| Deferred income | 1,325 | - | 1,115 | - |
| Other taxation and social security | 3,954 | - | 3,119 | - |
| Contingent consideration | 2,026 | - | 2,492 | - |
| Government grants | 41 | - | 55 | - |
| | 147,461 | 115 | 130,371 | 99 |
| Non-current | | | | |
| Contingent consideration | 115 | - | 134 | - |
| Government grants | 48 | - | 95 | - |
| | 163 | - | 229 | - |

Amounts owed to group undertakings included within current liabilities are unsecured, are not subject to an interest charge and are repayable on demand.

Included within accruals is an amount due to the NHS of £70,387,000 in respect of UDAs not delivered (2019: £51,690,000), along with fees of £22,748,000 payable to self-employed dentists in respect of work completed (2019: £22,260,000).

The fair value of the contingent consideration was estimated by assessing the probability that the performance based targets will be achieved and by discounting the probability weighted future cash flows. Target conditions can vary depending on the agreements made with individual sellers and may include revenue or EBITDA targets. The fair value estimates have been calculated using a discount rate of 2% (2019: 2%) which has been deemed the appropriate risk specific rate. This is a level 3 fair value measurement (see note 32).

Notes to the consolidated financial statements *(continued)*

22 Trade and other payables *(continued)*

The fair value of the remaining financial liabilities is not considered to be materially different from their carrying values, due to the short term to maturity.

The carrying amounts of the group's trade and other payables are denominated in the following currencies:

| | Group 2020 £'000 | Group 2019 £'000 |
|------------------|---------------------------------|------------------------|
| Sterling | 144,881 | 126,143 |
| Euro | 2,676 | 4,277 |
| US Dollar | 3 | 69 |
| Other currencies | 64 | 111 |
| | 147,624 | 130,600 |

All of the company's payables are denominated in Sterling.

23 Derivative financial instruments

Derivative financial liabilities

| | Group 2020 £'000 | Group 2019 £'000 |
|------------------------------------|---------------------------------|------------------------|
| Current assets | | |
| Foreign exchange forward contracts | 289 | - |
| | 289 | - |
| | | |
| Current liabilities | | |
| Foreign exchange forward contracts | - | (479) |
| | - | (479) |

Fair value of foreign exchange forward contracts

The group has policies and procedures in place to mitigate the impact of fluctuations in foreign exchange rates and, in particular, to provide reasonable certainty over the group's cash flows. As part of this strategy, the group routinely enters into foreign exchange forward contracts, which are negotiated in line with the group's anticipated commitments.

The fair value of the foreign exchange forward contracts is calculated as the present value of the estimated future cash flows when comparing the contracted forward rate against observable forward contract rates at the balance sheet date. This is a level 2 fair value measurement (see note 32).

Fair value of unquoted options

Under the terms of the indenture to the £275 million senior secured fixed rate notes and £150 million floating rate notes, the group holds certain call options to re-purchase all or part of the notes at pre-determined amounts during certain periods. Further details are contained within note 24.

Company

The company has no derivative financial instruments (2019: £nil).

Notes to the consolidated financial statements *(continued)*

24 Borrowings

| | Group 2020 £'000 | Group 2019 £'000 |
|---|---------------------------------|------------------------|
| Non-current | | |
| <i>Senior secured fixed rate, floating rate and second lien notes</i> | | |
| Due between two and five years | 552,541 | 551,766 |
| | <hr/> | <hr/> |
| | 552,541 | 551,766 |
| <i>Bank loans</i> | | |
| Due between two and five years | 98,200 | 25,000 |
| | <hr/> | <hr/> |
| Less: unamortised arrangement fees and related costs | (4,764) | (6,589) |
| | <hr/> | <hr/> |
| | 645,977 | 570,177 |
| | <hr/> <hr/> | <hr/> <hr/> |

All of the group's borrowings are denominated in Sterling and are secured by means of a floating charge against the assets of certain group subsidiary companies. See note 36 for a reconciliation of net debt.

Senior secured fixed rate, floating rate and second lien notes

Throughout the year ended 31 March 2020, the group had the following available borrowing facilities:

- £275 million of senior secured fixed rate notes. The notes were issued on 5 August 2016 at par, and mature at par on 15 August 2022. Interest is payable semi-annually in arrears on 15 February and 15 August each year, at a fixed coupon of 6.25% per annum.
- £150 million of senior secured floating rate notes. The notes were issued on 5 August 2016 at 99.5, a discount of 0.5% to par. The notes mature at par on 15 August 2022. Interest is payable quarterly in arrears on 15 February, 15 May, 15 August and 15 November each year, at a coupon of 3 month LIBOR plus 6.00%.
- £130 million of second lien notes. The notes were issued on 5 August 2016 at 96.5, a discount of 3.5% to par. The notes mature at par on 15 August 2023. Interest is payable quarterly in arrears on 15 February, 15 May, 15 August and 15 November each year, at a coupon of 3 month LIBOR plus 8.00%. 3 month LIBOR is subject to a 1.00% floor.
- £100 million Super Senior Revolving Credit Facility ('SSRCF'). £98.2 million had been drawn against the facility at 31 March 2020 (2019: £25 million), and a further £1.8 million committed against a letter of credit (see also note 31). Interest is payable in arrears at a rate of LIBOR plus 3.5% per annum. The facility is available until 5 August 2022.

Notes to the consolidated financial statements *(continued)*

24 Borrowings *(continued)*

The issue discount arising on the senior secured floating rate notes and the second lien notes is being amortised over the term to maturity, in accordance with the effective interest method.

The group is required to comply with certain financial and non-financial covenants under the terms of its various borrowing facilities. Further details of certain financial covenants can be found in note 32.

The market value of the senior secured fixed rate notes and the senior secured floating rate notes at 31 March 2020 was approximately £277 million (2019: £363 million). However the market value at 31 March 2020 was adversely affected by short term fluctuations in the market caused by the Covid-19 outbreak. Following a recovery in the market during April and May, the value as at 30 June 2020 is £357 million. The directors do not consider the fair value of the group's other borrowings to be materially different from their carrying values.

Under the terms of the indenture to the £275 million senior secured fixed rate notes and £150 million floating rate notes, the group holds certain call options to re-purchase all or part of the notes at pre-determined amounts during certain periods.

The senior secured fixed rate notes may be called by the group at a price of 103.125% of par between 15 August 2018 and 14 August 2019; at 101.563% of par between 15 August 2019 and 14 August 2020; or at par between 15 August 2020 and 14 August 2021.

The senior secured floating rate notes may be called by the group at par from 15 August 2018. Between 15 August 2017 and 14 August 2018, the notes could be called at 101%.

The above call options are not considered by the directors to have any value at 31 March 2020. See also note 23.

Company

The company has no borrowings (2019: £nil).

Notes to the consolidated financial statements (continued)

25 Provisions

| | Above market rental £'000 | Vacant property and dilapidations £'000 | Total £'000 |
|--|------------------------------------|--|------------------------|
| At 1 April 2018 | 3,341 | 5,662 | 9,003 |
| (Credited)/charged to the income statement | (62) | 1,775 | 1,713 |
| Utilised in the financial year | (589) | (661) | (1,250) |
| Unwinding of discount | 55 | 30 | 85 |
| | <hr/> | <hr/> | <hr/> |
| At 31 March 2019 | 2,745 | 6,806 | 9,551 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |
| | Above market rental £'000 | Vacant property and dilapidations £'000 | Total £'000 |
| At 1 April 2019 | 2,745 | 6,806 | 9,551 |
| Derecognised on IFRS 16 transition | (2,740) | (1,624) | (4,364) |
| Charged to the income statement | - | 647 | 647 |
| Utilised in the financial year | (5) | (996) | (1,001) |
| Unwinding of discount | - | 39 | 39 |
| | <hr/> | <hr/> | <hr/> |
| At 31 March 2020 | - | 4,872 | 4,872 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |
| | | Group 2020 £'000 | Group 2019 £'000 |
| Current | | 607 | 1,794 |
| Non-current | | 4,265 | 7,757 |
| | | <hr/> | <hr/> |
| | | 4,872 | 9,551 |
| | | <hr/> <hr/> | <hr/> <hr/> |

Above market rental

The group has a number of properties where the rentals payable are in excess of the current market rents. Where such rental contracts are acquired as part of a business combination, provision has been made to recognise the liability arising from the 'above market rental' element of these leases. In the year ended 31 March 2019, the gross provision of £3.0 million was discounted to present value using a rate of 2%. The discount rate of 2% was selected as an approximation to a 'risk free' rate of return.

On 1 April 2019, the opening market rent provision was derecognised following the transition of IFRS 16 and this was reflected in a reduction in the right of use assets in respect of these properties. See note 17 and note 37.

Vacant property and dilapidations

The group has a number of vacant and partly sub-let leasehold properties arising from the closure of loss making practices. Prior to the transition to IFRS 16 on 1 April 2019, provisions were made for the residual lease commitments, together with other outgoings, after taking into account existing sub-tenant arrangements. It was not assumed that the properties will be able to be sublet beyond the periods in the present sub-lease agreements.

On 1 April 19, the provision relating to the rental charges on these properties was derecognised as these have been reflected in the lease liability under IFRS 16. An impairment to the right of use asset in respect of these properties has also been recorded (see note 17). The residual non-rental property outgoings are still included within this provision. Provision has also been made for the costs associated with contractual obligations to return practices to their original condition at the end of the lease. The provisions are expected to be substantially utilised over the next five years. An element of the provisions have been discounted to present value in the same manner as described above for the above market rental provision.

Company: The company has no provisions (2019: £nil).

Notes to the consolidated financial statements (continued)

26 Deferred income tax

Deferred income tax is provided in full on temporary differences using the liability method and a tax rate of 19% (2019: 17%). See also note 13. The movement on the deferred income tax account is as shown below:

| | Arising on losses | Arising on share based payments | Arising on defined benefit pension obligation | Capital allowances | Arising on intangible assets | Arising on financial assets | Total |
|---|----------------------|---------------------------------------|---|-----------------------|---------------------------------------|-----------------------------------|-----------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| At 1 April 2018 | - | - | 88 | 16,402 | (36,686) | 6 | (20,190) |
| Recognised in income | - | 183 | 6 | 3,609 | 5,935 | - | 9,733 |
| Recognised in other comprehensive expense | - | - | 7 | - | - | - | 7 |
| Recognised directly in equity | - | (183) | - | - | - | - | (183) |
| Arising through business combinations | - | - | - | - | - | - | - |
| At 31 March 2019 | - | - | 101 | 20,011 | (30,751) | 6 | (10,633) |
| Recognised in income | 1,539 | 205 | 7 | 791 | (11,199) | - | (8,657) |
| Recognised in other comprehensive expense | - | - | (32) | - | - | - | (32) |
| Recognised directly in equity | - | (205) | - | - | - | - | (205) |
| Arising through business combinations | - | - | - | - | - | - | - |
| At 31 March 2020 | 1,539 | - | 76 | 20,802 | (41,950) | 6 | (19,527) |

The group has estimated non-trade losses of £25.8 million (2019: £34.6 million restated) available for carry forward against future non-trade profits. A deferred income tax asset of £4.9 million (2019: £5.9 million restated) in respect of these losses has not been recognised as the future recoverability is uncertain or not currently anticipated.

Deferred income tax arising on intangible assets has arisen as a result of business combinations.

Based upon its latest available budgets and forecasts, the group has a reasonable expectation that it will generate sufficient future taxable profits to recover the recognised deferred income tax assets shown above.

Net deferred income tax of approximately £2.7 million is expected to unwind to the income statement during the year ending 31 March 2021.

Company: The company has no deferred income tax (2019: £nil).

Notes to the consolidated financial statements *(continued)*

27 Share capital

| Group and company | Number issued | 2020 £'000 | Number issued | 2019 £'000 |
|---|------------------|---------------|------------------|---------------|
| Allotted, called up and fully paid | | | | |
| 'Ordinary shares of £1.00 | 410,961,479 | 410,961 | 410,961,479 | 410,961 |

28 Reserves

The following describes the nature and purpose of each reserve within equity attributable to owners of the parent:

Accumulated losses

Cumulative net gains and losses recognised in the group or parent company income statement or through equity.

29 Share based payments

On 12 June 2017, Turnstone Equityco 1 Limited issued a total of 82,559 'E1' ordinary shares of £0.10p and 146,771 'E2' ordinary shares of £0.001p. All of the 'E1' ordinary shares, and 28,666 of the 'E2' ordinary shares, were issued to members of the group's management team. The remaining 118,105 'E2' ordinary shares were issued to an Employee Benefit Trust, to be allocated to other employees of the group. 57,333 of the 'E1' ordinary shares and all of the 'E2' ordinary shares have been, or will be, gifted to employees of the group for nil consideration.

The 'E1' and 'E2' ordinary shares entitle the holders to a share of the equity value of the company above a defined hurdle enterprise value for the group, in the event of a sale of the business by the holders of the 'A1' ordinary shares.

Furthermore, holders of the 'E1' and 'E2' ordinary shares are subject to certain vesting conditions. 25% of the shares held will vest upon each anniversary from the commencement date of 1 July 2017, with vested shares entitling the holder to an amount equal to fair market value. Shares which have not yet vested entitle the holder to an amount equal to the lower of cost and fair market value. In the event of a sale of the business, all remaining shares held by current employees of the group at such a time will immediately vest.

The fair value of the shares issued during the previous year, determined using an expected value model, is £12.92 for each 'E1' and 'E2' ordinary share. The expected value model considered a range of probability weighted enterprise value outcomes in the event of a sale of the business.

The fair value of the shares issued is to be charged to the income statement over the expected life of the shares. As a result, a charge of £1,077,000 (2019: £1,077,000) has been recognised in the income statement.

Notes to the consolidated financial statements *(continued)*

30 Commitments

Group

Operating lease commitments

The group has a number of non-cancellable operating lease agreements, principally in relation to property. The majority of lease agreements would be renewable at the end of the lease period through negotiation of mutually acceptable terms with the lessor. The terms of the property leases vary, although they will typically contain provision for one or more upwards only rent reviews at intervals throughout the lease term, usually linked either to RPI or to market valuation. The future aggregate minimum lease payments under non-cancellable operating leases are shown below.

From 1 April 2019, the group has recognised right of use assets for leases and corresponding lease liabilities, except for short term and low value leases. See note 17 for further information.

| | Group 2020 £'000 | Group 2019 £'000 |
|--|---------------------------------|------------------------|
| Land and buildings | | |
| Within one year | 26 | 13,939 |
| Between one year and five years | 29 | 46,507 |
| After five years | 20 | 59,207 |
| | <hr/> | <hr/> |
| | 75 | 119,653 |
| | <hr/> <hr/> | <hr/> <hr/> |
| Motor vehicles, plant and equipment | | |
| Within one year | - | 801 |
| Between one year and five years | - | 537 |
| | <hr/> | <hr/> |
| | - | 1,338 |
| | <hr/> <hr/> | <hr/> <hr/> |

31 Contingencies

Taxation

The group and HMRC are in discussion over technical tax positions related to the partnership acquisition model.

1) Goodwill deductions

The partnership acquisition process involves a group subsidiary company, usually Whitecross Dental Care Limited, purchasing the trade and assets of a target practice resulting in the recognition of goodwill for the excess of any consideration over the fair value of the trade and assets. Where the transaction completed before 8 July 2015, the company considers that a corporation tax deduction is available for the amortisation of this goodwill. HMRC disagree with the accounting treatment adopted by the company and have challenged the availability of the goodwill deductions claimed in the tax computations for the years ended 31 March 2011, 2012 and 2013. HMRC have raised assessments in respect of these periods to disallow the goodwill deducted but have then specified that the assessments should not be paid at this time while they continue their review. The assessments have been appealed by the company and are subject to ongoing discussions. The computations in the following tax years are open as HMRC have opened protective enquiries on the returns.

There is no immediate cash tax impact as the company has sufficient unclaimed capital allowances which could be utilised to replace any disallowed deductions.

In considering the likelihood of all potential outcomes at the year end, the group has taken the decision to recognise a potential liability for part of the goodwill balance relating to the NHS contract. Future potential deductions for amortisation have been provided for and this increases the deferred tax liability by £11.0m. The disallowance of historical claims would lead to the utilisation of currently unclaimed capital allowances. Providing for this reduced the deferred tax asset by £5.8m.

Notes to the consolidated financial statements *(continued)*

31 Contingencies *(continued)*

With regard to the other tax positions the group considers that it is probable that the issues will be resolved in its favour and has therefore not recognised a provision in relation to these uncertain tax positions.

2) VAT on dental facilities

Where a partnership holds the NHS dental contract, in order to enable the dentists to provide treatment to patients, dental facilities, including the chair, instruments and a nurse, are provided by a subsidiary. The company and its advisors, including Counsel, consider that this supply of dental facilities is not chargeable to VAT. HMRC argue that the supply should have been standard rated and VAT collected on the supply. Assessments have been raised by HMRC for VAT periods from 1 January 2014 but HMRC have confirmed that these should not be paid while they continue their review.

The estimated range of outcomes for the VAT charge is £nil if the supply is considered to be exempt from or outside of the scope of VAT, to £20.0 million should it be determined VAT should have been collected. In the event of a final assessment, the company will appeal. However, it is likely that the final assessment would need to be paid to HMRC before any appeal could be heard at tribunal.

The directors intend to defend their position on these two technical points and will challenge any notice for additional taxes to be paid. Both points continue to be under discussion with HMRC and the timing of any resolution remains uncertain.

3) Self-employed status of clinicians

The status of clinicians as self-employed is discussed in note 3. As it is considered remote that a retrospective charge would arise from a review, there is not considered to be a contingent liability for this issue.

Assigned leases

Upon disposal of dental practices, the group has typically assigned the associated leases to the purchaser. In the event that the purchaser defaults on their lease payments and should the landlord be unable to mitigate their losses sufficiently, then there is an obligation on the group to take on these lease commitments.

In the opinion of the directors such eventualities are unlikely, as dental practices have been disposed of as going concerns. As a result there is no such provision against such eventualities made in these financial statements. The group has no experience of any leases that it has assigned, in relation to dental practices, reverting back to it.

Partnership guarantees

A number of individuals in the management team have entered into partnerships as part of the group's acquisition of the trade and assets of those partnerships. The partners hold their interest in the partnership under a trust deed on behalf of one of the group companies. In order to indemnify the partners against specific risks in relation to this arrangement, a guarantee is in place supported by a letter of credit from the group's bank for £1.8 million (2019: £1.8 million).

Company

Guarantee over the liabilities of subsidiaries

The company has provided a guarantee to the members of certain subsidiary companies, as identified in note 18, over all of their respective outstanding liabilities, under section 479C of the Companies Act 2006. As a result, having also received agreement from all members of each company, the companies identified in note 18 are exempt from audit of their individual company financial statements for the year ended 31 March 2020 by virtue of section 479A of the Companies Act 2006.

Notes to the consolidated financial statements *(continued)*

32 Financial instruments

Financial risk management

The Board of Directors has overall responsibility for the establishment and oversight of the group's risk management framework. The group's activities expose it to a variety of financial risks including credit risk, liquidity risk, market (including currency and interest rate risk) and inflation risk.

The group's risk management policies are established to identify and analyse the risks faced by the group, to set appropriate risk limits and controls to monitor both the risks and adherence to limits set. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the group's activities.

Credit risk

Credit risk is the risk of financial loss to the group if a customer fails to meet its contractual obligations. The nature of the group's contracts with the NHS Regions means that credit risk is minimised for a significant proportion of group revenue. The patient's contribution to NHS charges is usually collected before treatment in order to minimise risk to the group, however a risk may arise if treatment plans change and additional charges are not collected at the time of the appointment. Payment is also requested in advance for major courses of private treatment. In DD, new customers are subject to external credit checks using the main agencies. Credit terms are negotiated individually and subsequently monitored closely by the credit control team. Cash deposits are principally held with institutions that hold a minimum credit rating meeting two of the following: BBB+ (Standard and Poor's or Fitch); or Baa1 (Moody's).

Liquidity risk

Liquidity risk is the risk that the group will not be able to meet its financial obligations as they fall due. The group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without unacceptable losses or risking damage to the group's reputation.

The group regularly monitors its cash flow forecasts and currently maintains funds on demand to meet all operational expenses including the servicing of financial obligations. Further details of the group's bank facilities and other borrowings are set out in note 24 and the group's trade and other payables are set out in note 22.

Market risk

Market risk is the risk that changes in foreign exchange rates and interest rates will affect the group's income or costs. The group is exposed to currency risk as business units within DD routinely purchase goods in currencies other than Sterling (principally Euro and US Dollar). The group has policies and procedures in place to mitigate the impact of fluctuations in foreign exchange rates and, in particular, to provide reasonable certainty over the group's cash flows, through the use of, for example, derivative financial instruments such as foreign currency forward contracts or option contracts. This risk is also managed through competitive tendering for the group's significant supply contracts. All other operations are carried out in the United Kingdom and all income, other expenses and facilities are denominated in Sterling.

£275 million of the group's senior secured notes are of a fixed rate nature, therefore, interest charges are fixed in respect of 42% of the group's total drawn debt (2019: 48%). Further details are set out in note 24.

Inflation risk

Inflation risk is the risk that the cost of key services and products procured by the group will rise with inflation and affect the group's income. The rates paid under the terms of the group's NHS contracts are reviewed on an annual basis and, over the course of the past few years, the annual uplifts have typically been lower than the rate of both RPI and CPI.

The group undergoes a regular review of key suppliers through its procurement programme to mitigate cost increases, using tendering processes where possible. In addition, the group seeks to rationalise its supplier base to benefit from its scale.

Notes to the consolidated financial statements *(continued)*

32 Financial instruments *(continued)*

Sensitivity analysis

Management have considered the risk of changes in interest rates upon the group's financial performance. 42% (2019: 48%) of the group's external debt is subject to fixed interest and therefore the impact of changes to interest rates upon the group's cash flows is significantly mitigated. However a 1% increase or decrease in the rate of LIBOR would have the effect of increasing or decreasing the group's annual cash interest costs by approximately £3.2 million or £2.5 million respectively, based upon the funding structure in place at 31 March 2020.

Capital management

The primary objective of the group's capital management of net debt (which includes cash and specifically excludes shareholder loan notes and redeemable preference shares) is to ensure that it maintains its capital ratios in order to support the business and maximise shareholder value. The group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the group may adjust the return of capital to shareholders or issue new shares and vary the maturity profile of its borrowings. The group monitors capital using the following key indicators:

Net debt to EBITDA

| | Group 2020 £'000 | Group 2019 £'000 |
|---|---------------------------------|------------------------|
| EBITDA before non-underlying items | 76,239 | 58,105 |
| Adjusted EBITDA before non-underlying items | 62,121 | 58,105 |
| Net bank and bond debt | 569,914 | 561,316 |
| Net debt to EBITDA | 7.47 | 9.66 |
| Net debt to adjusted EBITDA | 9.17 | 9.66 |

Net bank and bond debt includes cash and cash equivalents, the senior secured fixed rate, floating rate and second lien notes, bank loans and unamortised arrangement fees. Net debt and net debt ratios exclude lease liabilities, in line with the terms of the group's banking arrangements.

In addition, management monitors the ratio of net debt to EBITDA adjusted to reflect the estimated annualised impact of acquisitions and disposals ('Proforma EBITDA'). Net debt reflects the consideration paid for all acquisitions, however EBITDA will not reflect the full earnings benefit from these acquisitions until the year following acquisition. Furthermore, EBITDA includes losses generated by practices disposed of during the year. Therefore management considers using Proforma EBITDA gives a more accurate representation of the net indebtedness relative to earnings. Proforma EBITDA at 31 March 2020 was £75,396,000 (2019: £59,436,000) and proforma adjusted EBITDA was £61,278,000.

The ratio of EBITDA before non-underlying items to net debt plus lease liabilities of £93.7 million was 8.70x.

As at 31 March 2020, the estimated ratio of net debt to Proforma EBITDA was 7.56 times (2019: 9.44 times) and net debt to adjusted proforma EBITDA was 9.30 times.

EBITDA interest cover

| | Group 2020 £'000 | Group 2019 £'000 |
|---|---------------------------------|------------------------|
| EBITDA before non-underlying items | 76,239 | 58,105 |
| Adjusted EBITDA before non-underlying items | 62,121 | 58,105 |
| Finance costs | 42,130 | 41,427 |
| EBITDA interest cover | 1.81 | 1.40 |
| Adjusted EBITDA interest cover | 1.47 | 1.40 |

Finance costs include interest charges in respect of the senior secured fixed rate notes, senior secured floating rate notes, second lien notes and bank loans and overdrafts and syndicate charges, but excludes amortisation of debt issue costs and related fees, unwinding of provision discount, finance expense in respect of the defined benefit pension scheme, and all other non-recurring finance costs.

Notes to the consolidated financial statements *(continued)*

32 Financial instruments *(continued)*

The group's principal loan covenant is in respect of the ratio of gross debt drawn under the SSRCF to Proforma LTM EBITDA ('Super Senior Gross Leverage Ratio'). Under the terms of the group's SSRCF, this covenant is not required to be tested unless a minimum of 35% of the available £100 million facility has been drawn. In the event that 35% or more of the facility has been drawn, the Super Senior Gross Leverage Ratio is required to be no more than 2.3 times. In order to maximise group liquidity during the Covid-19 crisis, the £100 million SSRCF was drawn down in full during March 2020, therefore 100% drawn against the facility (2019: 25%). Given that the test condition has been met, the Super Senior Gross Leverage Ratio has been calculated at 1.63 times (using Adjusted Proforma EBITDA). Therefore there is no default in the covenant.

Non-derivative financial liabilities

The table below analyses the group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period to the contractual maturity date at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows.

At 31 March 2019

| | Less than one year £'000 | Between one and two years £'000 | Between two and five years £'000 | After five years £'000 |
|--------------------------|--------------------------------|--|---|------------------------------|
| Loans and borrowings | - | - | 576,766 | - |
| Trade and other payables | 126,138 | 124 | 100 | 4 |
| | <u>126,138</u> | <u>124</u> | <u>576,866</u> | <u>4</u> |

At 31 March 2020

| | Less than one year £'000 | Between one and two years £'000 | Between two and five years £'000 | After five years £'000 |
|--------------------------|--------------------------------|--|---|------------------------------|
| Loans and borrowings | - | - | 650,741 | - |
| Trade and other payables | 142,182 | 118 | 44 | 1 |
| | <u>142,182</u> | <u>118</u> | <u>650,785</u> | <u>1</u> |

Financial instruments measured at fair value

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The following table presents the group's financial assets and liabilities that are measured at fair value. See note 22 for additional details on contingent consideration arrangements and see note 23 for details of the group's derivative financial instruments.

| Fair value measurements | At 31 March 2020 | | | At 31 March 2019 | | |
|----------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 |
| Financial assets | | | | | | |
| Derivative financial instruments | - | 289 | - | - | - | - |
| Financial liabilities | | | | | | |
| Derivative financial instruments | - | - | - | - | (479) | - |
| Contingent consideration | - | - | (2,141) | - | - | (2,626) |

Notes to the consolidated financial statements *(continued)*

32 Financial instruments *(continued)*

Derivative financial liabilities and contingent consideration are measured at fair value at the end of each reporting period. A reconciliation of movements in contingent consideration has been included in the table below. Any gains or losses arising as a result of the measurement of contingent consideration are recognised through the income statement within administrative expenses.

There were no transfers between levels 1 and 2 or between levels 2 and 3 during the year (2019: none).

Financial instruments in level 2

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments are as follows:

- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves;
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

Financial instruments in level 3

The following tables present the changes in level 3 financial instruments:

Contingent consideration

| | Group 2020 £'000 | Group 2019 £'000 Restated |
|--|---------------------------------|------------------------------------|
| At 1 April | 2,626 | 6,625 |
| Reallocation on non-contingent consideration payment | 44 | - |
| Contingent consideration settled | (435) | (359) |
| Differences between contingent consideration paid and estimates initially recognised | (98) | (3,685) |
| Unwinding of discount | 4 | 45 |
| | <hr/> | <hr/> |
| At 31 March | 2,141 | 2,626 |
| | <hr/> <hr/> | <hr/> <hr/> |

Further information in respect of the valuation techniques used to determine the fair value of contingent consideration can be found within note 22.

Notes to the consolidated financial statements *(continued)*

33 Post employment benefits

The group makes contributions to a small number of defined contribution pension schemes on behalf of its employees, including the National Employment Savings Trust ('NEST'). The pension cost charge for the financial year represents contributions payable by the group to the schemes and amounted to £2,191,000 (2019: £1,503,000).

There were no outstanding or prepaid contributions at either the beginning or end of the financial year (2019: £nil).

The group also operates a pension scheme providing benefits based on final pensionable pay. The scheme is closed to new members and has no active members.

During the year to 31 March 2020 the group contributed £62,000 directly into the scheme (2019: £62,000) and the cost of insuring death in service benefits and other trustee expenses were paid by the group and amounted to £75,000 (2019: £80,000). The group expects to make contributions of £62,000 to the scheme and does not expect the costs of the scheme to change significantly in the next financial year.

The latest full actuarial valuation for which results are available, was carried out as at 6 April 2017 and was updated for disclosure purposes to 31 March 2019 and 31 March 2020 by a qualified independent actuary.

The significant actuarial assumptions were as follows:

| | Group 2020 % | Group 2019 % |
|---|-----------------------------|--------------------|
| Rate of increase in pensions in payment and deferred pensions | 2.80 | 3.40 |
| Discount rate applied to scheme liabilities | 2.40 | 2.40 |
| Inflation assumption | 2.80 | 3.40 |

The assumptions used by the actuary are chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

Mortality assumptions are based on standard mortality tables which allow for future mortality improvements. The assumptions are that a member who retires at the age of 65 in 2020 will on average live for a further 21.9 years (2019: 22.6 years) after retirement if they are male and 24.2 years (2019: 24.9 years) if they are female.

It is also assumed that members retiring in 20 years' time will on average live for a further 23.2 years (2019: 24.0 years) after retirement if they are male and 25.7 years (2019: 26.3 years) if they are female.

The amounts recognised in the balance sheet are determined as follows:

| | Group 2020 £'000 | Group 2019 £'000 |
|--|---------------------------------|------------------------|
| Present value of funded obligations | (7,403) | (7,824) |
| Fair value of plan assets | 7,002 | 7,231 |
| Deficit recognised in the balance sheet | (401) | (593) |

The group has no recourse to recover any surplus funds held by the scheme once all liabilities have been settled. Accordingly, where the scheme is in a surplus position at the balance sheet date, this surplus is not recognised as an asset within the balance sheet. The 2019 and 2020 plan assets and liabilities have been restated to gross up for insured annuitants balances. These items were previously treated on a net £nil basis. There is no net impact on the plans net position in the balance sheet.

Notes to the consolidated financial statements *(continued)*

33 Post employment benefits *(continued)*

The movement in the deficit (prior to de-recognition of any surplus) is as follows:

| | 2020 | | | 2019 | | |
|--|--|------------------------------------|------------------|--|------------------------------------|------------------|
| | Present value of funded obligations £'000 | Fair value of plan assets £'000 | Deficit £'000 | Present value of funded obligations £'000 | Fair value of plan assets £'000 | Deficit £'000 |
| At 1 April | (7,824) | 7,231 | (593) | (7,515) | 6,998 | (517) |
| Scheme expenses paid out | - | (22) | (22) | - | (21) | (21) |
| Employer contributions | - | 62 | 62 | - | 62 | 62 |
| Interest (expense)/income | (186) | 172 | (14) | (191) | 178 | (13) |
| | (186) | 212 | 26 | (191) | 219 | 28 |
| Re-measurement: | | | | | | |
| Return on plan assets excluding interest income | - | (271) | (271) | - | 342 | 342 |
| Re-measurement gain from changes in demographic assumptions | 135 | - | 135 | (24) | - | (24) |
| Re-measurement gain/(loss) from changes in financial assumptions | 199 | - | 199 | (455) | - | (455) |
| Experience gain | 103 | - | 103 | 33 | - | 33 |
| | 437 | (271) | 166 | (446) | 342 | (104) |
| Benefits paid | 170 | (170) | - | 328 | (328) | - |
| At 31 March | (7,403) | 7,002 | (401) | (7,824) | 7,231 | (593) |

Plan assets are comprised as follows:

| | 2020 | | 2019 | |
|--|----------------|--------------------------------|----------------|--------------------------------|
| | Value £'000 | Percentage of plan assets % | Value £'000 | Percentage of plan assets % |
| Equities | 1,812 | 26% | 1,733 | 24% |
| Bonds | 2,557 | 36% | 2,780 | 38% |
| Property | 58 | 1% | 63 | 1% |
| Cash | 176 | 3% | 90 | 1% |
| Insured annuitants | 2,399 | 34% | 2,565 | 36% |
| Total market value of plan assets | 7,002 | 100% | 7,231 | 100% |

The sensitivity of the defined benefit obligation to changes in the principal assumptions are as follows:

| Assumption | Change in assumption | Change in liabilities (£000's) |
|-------------------|----------------------|--------------------------------|
| Discount rate | Decrease by 0.1% | Increase by 95 |
| Rate of inflation | Increase by 0.1% | Increase by 26 |
| Life expectancy | Increase by one year | Increase by 118 |

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. The sensitivity of the defined benefit obligation to significant actuarial assumptions has been estimated, based on the average age and the normal retirement age of members and the duration of the liabilities of the scheme.

Notes to the consolidated financial statements (continued)

34 Related party transactions

Company

Audit fee recharge

Petrie Tucker and Partners Limited, a wholly owned subsidiary company, recharged the company £16,000 in respect of the company's share of the group audit fee (2019: £9,000).

35 Cash generated from operations

Group

| | Group 2020 £'000 | Group 2019 £'000 Restated |
|--|---------------------------------|------------------------------------|
| Loss before income tax | (131,810) | (83,252) |
| <i>Adjustments:</i> | | |
| Depreciation of property, plant and equipment | 33,658 | 21,116 |
| Amortisation of government grants | (52) | (56) |
| Amortisation of intangible assets | 30,525 | 30,941 |
| Impairment of goodwill and intangible assets | 79,053 | 16,296 |
| Impairment of right of use assets | 483 | - |
| Finance costs | 48,424 | 43,331 |
| Finance income | (56) | (39) |
| Loss on business and asset disposals | 10,002 | 24,245 |
| Differences between contingent consideration paid and estimates initially recognised | (98) | (3,685) |
| Defined benefit pension scheme expenses | 22 | 21 |
| (Profit)/loss from derivative financial instruments at fair value through profit or loss | (768) | 312 |
| Value of employee services arising from shares granted to directors and employees | 1,077 | 1,077 |
| Pension contributions | (62) | (62) |
| Cash generated from operations before movements in working capital | 70,398 | 50,245 |
| <i>Movements in working capital:</i> | | |
| Decrease/(increase) in inventories | 3,264 | (7,517) |
| (Increase)/decrease in trade and other receivables | (13,500) | 979 |
| Increase/(decrease) in trade and other payables | 18,835 | (4,626) |
| Decrease in provisions | (736) | (1,454) |
| Total movements in working capital | 7,863 | (12,618) |
| Cash generated from operations | 78,261 | 37,627 |

The cash flow for FY2019 has been restated to reclassify £3.2 million of contingent consideration from financing expenses to cash generated from operations before movements in working capital.

Company

| | Company 2020 £'000 | Company 2019 £'000 |
|--|-----------------------------------|--------------------------|
| Loss before income tax | (172,023) | (9) |
| <i>Adjustments:</i> | | |
| Increase in other payables | 16 | 11 |
| Provision against investment in subsidiaries | 172,007 | - |
| Cash generated from operations | - | 2 |

Notes to the consolidated financial statements *(continued)*

36 Net debt reconciliation

| | Other assets | Liabilities from financing activities | |
|----------------------------------|---------------------|---|------------------|
| | Cash | Bank and bond liabilities more than 1 year | Total |
| | £'000 | £'000 | £'000 |
| Balance at 1 April 2018 | 16,192 | (547,641) | (531,449) |
| Cash flows | (7,331) | (20,000) | (27,331) |
| Amortisation of debt issue costs | - | (1,761) | (1,761) |
| Other changes | - | (775) | (775) |
| Balance at 31 March 2019 | 8,861 | (570,177) | (561,316) |
| Cash flows | 67,202 | (73,200) | (5,998) |
| Amortisation of debt issue costs | - | (1,825) | (1,825) |
| Other changes | - | (775) | (775) |
| Balance at 31 March 2020 | 76,063 | (645,977) | (569,914) |

Shareholder debt includes preference shares of £63.7 million and loan notes of £825.4 million.

The gross cash flows in the year on bank debt comprise repayments of £5.0 million and drawdowns of £78.2 million.

On a pre IFRS 16 basis, the group's net debt (bank and bond liabilities more than 1 year less cash) amounts to £569.9 million (2019: £561.3 million).

On a post IFRS 16 basis, the group's net debt includes its lease liabilities of £79.4 million over 1 year and £14.3 million less than 1 year. Including these items, the group's net debt amounts to £663.6 million.

Notes to the consolidated financial statements (continued)

37 Changes in accounting policies

This note explains the impact of the adoption of IFRS 16 on the group's financial statements.

Consolidated income statement

| | 2020 Previous IFRS £'000 | IFRS 16 | 2020 As reported £'000 |
|-------------------------|---|----------------|---------------------------------------|
| Revenue | 600,471 | - | 600,471 |
| Cost of sales | (342,843) | - | (342,843) |
| Gross profit | <u>257,628</u> | <u>-</u> | <u>257,628</u> |
| Distribution costs | (19,868) | - | (19,868) |
| Administrative expenses | (325,121) | 2,511 | (322,610) |
| Other income | 1,548 | - | 1,548 |
| Other net losses | (140) | - | (140) |
| Operating loss | <u>(85,953)</u> | <u>2,511</u> | <u>(83,442)</u> |

Analysed as

| | | | |
|--|-----------------|--------------|-----------------|
| EBITDA before non-underlying items | 62,121 | 14,118 | 76,239 |
| Amortisation of intangible assets | (30,525) | - | (30,525) |
| Depreciation | (21,745) | (11,913) | (33,658) |
| Amortisation of government grant income | 52 | - | 52 |
| Impairment of intangible assets | (79,053) | - | (79,053) |
| Impairment of right of use assets | - | (483) | (483) |
| Impairment of non-current assets reclassified as held for sale and loss on closure or disposal of dental practices | (10,760) | 789 | (9,971) |
| Differences between contingent consideration paid and estimates initially recognised | 98 | - | 98 |
| Value of employee services arising from shares granted | (1,077) | - | (1,077) |
| Other non-underlying items | (4,924) | - | (4,924) |
| Net foreign exchange losses | (140) | - | (140) |
| Operating loss | <u>(85,953)</u> | <u>2,511</u> | <u>(83,442)</u> |

| | | | |
|-------------------------------|------------------|----------------|------------------|
| Finance costs | (44,057) | (4,367) | (48,424) |
| Finance income | 56 | - | 56 |
| Net finance costs | <u>(44,001)</u> | <u>(4,367)</u> | <u>(48,368)</u> |
| Loss before income tax | <u>(129,954)</u> | <u>(1,856)</u> | <u>(131,810)</u> |
| Income tax charge | (8,657) | - | (8,657) |
| Loss for the year | <u>(138,611)</u> | <u>(1,856)</u> | <u>(140,467)</u> |
| Attributable to: | | | |
| Owners of the parent | (138,611) | (1,856) | (140,467) |
| Non-controlling interests | - | - | - |
| | <u>(138,611)</u> | <u>(1,856)</u> | <u>(140,467)</u> |

Notes to the consolidated financial statements *(continued)*

37 Changes in accounting policies *(continued)*

Consolidated Balance Sheet

| | 2020 Previous IFRS £000 | Opening adjustment £000 | IFRS 16 FY2020 adjustments £000 | 2020 As reported £000 |
|--|----------------------------------|-------------------------------|--|-----------------------------|
| Assets | | | | |
| Non-current assets | | | | |
| Goodwill | 142,063 | - | - | 142,063 |
| Other intangible assets | 295,569 | - | - | 295,569 |
| Property, plant and equipment | 99,802 | - | - | 99,802 |
| Right of use assets | - | 96,391 | (8,355) | 88,036 |
| | 537,434 | 96,391 | (8,355) | 625,470 |
| Current assets | | | | |
| Inventories | 25,053 | - | - | 25,053 |
| Trade and other receivables | 53,345 | (1,948) | (221) | 51,176 |
| Current income tax | 40 | - | - | 40 |
| Derivative financial instruments | 289 | - | - | 289 |
| Cash and cash equivalents | 76,063 | - | - | 76,063 |
| | 154,790 | (1,948) | (221) | 152,621 |
| Total assets | 692,224 | 94,443 | (8,576) | 778,091 |
| Equity attributable to the owners of the parent | | | | |
| Share capital | 410,961 | - | - | 410,961 |
| Accumulated losses | (543,140) | - | (1,856) | (544,996) |
| | (132,179) | - | (1,856) | (134,035) |
| Non-controlling interest | - | - | - | - |
| Total equity | (132,179) | - | (1,856) | (134,035) |

Notes to the consolidated financial statements *(continued)*

37 Changes in accounting policies *(continued)*

Consolidated Balance Sheet

| | 2020 | IFRS 16 | | 2020 |
|-------------------------------------|-----------------|-------------------|-------------------|--------------------|
| | Previous | Opening | FY2020 | As reported |
| | IFRS | adjustment | adjustment | |
| | £000 | £000 | £000 | £000 |
| Liabilities | | | | |
| Non-current liabilities | | | | |
| Borrowings | 645,977 | - | - | 645,977 |
| Other payables | 163 | - | - | 163 |
| Lease liabilities | - | 85,843 | (6,451) | 79,392 |
| Deferred income tax liabilities | 19,527 | - | - | 19,527 |
| Post employment benefits | 401 | - | - | 401 |
| Provisions | 7,730 | (3,443) | (22) | 4,265 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| | 673,798 | 82,400 | (6,473) | 749,725 |
| Current liabilities | | | | |
| Trade and other payables | 149,024 | (1,473) | (90) | 147,461 |
| Lease liabilities | - | 14,437 | (104) | 14,333 |
| Provisions | 1,581 | (921) | (53) | 607 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| | 150,605 | 12,043 | (247) | 162,401 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total liabilities | 824,403 | 94,443 | (6,720) | 912,126 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total equity and liabilities | 692,224 | 94,443 | (8,576) | 778,091 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |

Notes to the consolidated financial statements *(continued)*

37 Changes in accounting policies *(continued)*

Consolidated cash flow statement

| | 2020 Previous IFRS £'000 | IFRS 16 £'000 | 2020 As reported £000 |
|---|---|--------------------------|--------------------------------------|
| Cash flows from operating activities | | | |
| Cash generated from operations | 63,253 | 15,008 | 78,261 |
| Net cash inflow from operating activities | 63,253 | 15,008 | 78,261 |
| Cash flows from investing activities | | | |
| Acquisitions (net of cash acquired) | (8) | - | (8) |
| Contingent consideration paid | (435) | - | (435) |
| Purchase of property, plant and equipment | (27,305) | - | (27,305) |
| Losses on business and asset disposals | (129) | - | (129) |
| Interest received | 56 | - | 56 |
| Net cash outflow from investing activities | (27,821) | - | (27,821) |
| Cash flows from financing activities | | | |
| Drawdown of bank loans | 78,200 | - | 78,200 |
| Repayment of bank loans | (5,000) | - | (5,000) |
| Bank and bond interest paid | (41,430) | - | (41,430) |
| Lease cash payments | - | (15,008) | (15,008) |
| Net cash outflow from financing activities | 31,770 | (15,008) | 16,762 |
| Net increase in cash and cash equivalents | 67,202 | - | 67,202 |
| Cash and cash equivalents at the start of the year | 8,861 | - | 8,861 |
| Cash and cash equivalents at the end of the year | 76,063 | - | 76,063 |

38 Controlling party

The immediate parent undertaking is Turnstone Midco 1 Limited, a company incorporated in the United Kingdom and domiciled in England.

The results of the company and of the group are also consolidated in the financial statements of Turnstone Equityco 1 Limited. Turnstone Equityco 1 Limited is the parent undertaking of the largest group to consolidate these financial statements. No other financial statements consolidate the results of the group.

Carlyle and Palamon have joint control of Turnstone Equityco 1 Limited. Carlyle's majority holding is owned by CEP III Participations S.à.r.l. SICAR, an investment vehicle for Carlyle. Palamon's ownership of the group is through its fund Palamon European Equity II, L.P. At 31 March 2019 and throughout the year, the ultimate controlling party of Turnstone Equityco 1 Limited is considered by the directors to be CEP III Participations S.à.r.l. SICAR.