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ASX ANNOUNCEMENT

Pacific Smiles Group Limited (ASX: PSQ)

18 October 2017

PARRAMATTA DENTAL CENTRE RESTRUCTURE AND EVERYTHING DENTURES ACQUISITION

Pacific Smiles Group Limited (ASX: PSQ) ("Pacific Smiles" or "the Company") provides the following update to the market in relation to a proposed restructure of the centre located in Parramatta and the acquisition of Everything Dentures ("ETD").

Parramatta Restructure

Pacific Smiles today announces a proposed restructure of the Pacific Smiles Dental Centre located in Parramatta, in Sydney's West. Pacific Smiles acquired this centre in June 2014 as part of the acquisition of three centres previously owned by Medibank Private, and relocated the centre to its current site in September 2015. The centre has continued to perform below management expectations and, as a result, actions are being taken to right-size the centre to better match the capacity at which it is currently operating. The proposed initiatives include the reduction of the operational size of the centre from 12 surgeries to 7 surgeries and consequent reduction in staffing levels and practitioner coverage.

The proposed changes will result in a one-off EBITDA impact of \$2.6 million in the current period, reflecting \$1.0 million in redundancy costs and a \$1.6 million non-cash impairment charge.

Pacific Smiles expects the centre to continue to be EBITDA positive in FY18 excluding the one-off restructuring and impairment costs.

Commenting on the proposed restructure, Pacific Smiles CEO John Gibbs said:

"The centre we operate at Parramatta is larger than our average centres and unfortunately we have not achieved satisfactory performance levels. We believe the actions we are taking will create a more profitable and sustainable operation for the long term benefit of patients, practitioners, staff and Pacific Smiles."

Everything Dentures

Pacific Smiles also announces the acquisition of 100% of Everything Dentures ("ETD"), a provider of prosthetic denture services and dental laboratory services. Following completion, ETD will become a wholly owned subsidiary of Pacific Smiles.

Everything Dentures consists of three existing denture clinics; one located in Five Dock, Sydney and two located in Canberra, ACT as well as Sculpt Dental Laboratories in Five Dock and Canberra. ETD also currently has Prosthetists working in eight Pacific Smiles Dental Centres.

The acquisition consideration includes an upfront cash payment of approximately \$0.7 million plus an earn-out component payable on the achievement of certain performance hurdles over 2 years.

In addition, Pacific Smiles has entered into a five-year employment agreement with the vendors of ETD, in which they are entitled to an incentive payment at the end of the 5th year based on a multiple of EBITDA in the final year that is incremental to an agreed base EBITDA.

The primary long term strategic rationale for the acquisition is to address the need for denture services within Pacific Smiles' expanding dental centre network. From time to time Pacific Smiles will also consider making highly selective add-on acquisitions of denture clinics and laboratories.

The acquisition is expected to complete on 31 October 2017.

Commenting on the ETD acquisition, Pacific Smiles CEO John Gibbs said:

"Pacific Smiles is predominantly an organic rollout model, however the acquisition of Everything Dentures is a great example of where we can acquire incremental expertise in a way that can be leveraged across our existing network. Under the direction of the founders and key managers, Leif Svensson, John Quintal and Vince Sorrentino, Everything Dentures has a demonstrated track record in the provision of quality denture services and we are excited to have them and the rest of the ETD team join us."

Impact on FY2018 Guidance

Pacific Smiles does not expect the above two developments to materially impact the underlying performance of the business in FY2018. Consistent with the approach taken in prior years, the Company will provide a trading update at the Annual General Meeting on 20 November 2017.

For further information, please contact:

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