



Pacific Smiles Group Limited (ASX: PSQ)
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ASX ANNOUNCEMENT

Pacific Smiles Group Limited – Half Year Results to 31 December 2017

Pacific Smiles Group Limited (ASX: PSQ) ("Pacific Smiles" or "the Company") today announced its financial results for the half year ended 31 December 2017.

Key financial highlights

The key financial highlights from the result include:

- Patient Fees across the full Pacific Smiles dental centre network of \$80.7 million, up 9.7% on the prior period
- Revenue of \$50.5 million, up 10.8% on the prior period
- Same Centre Patient Fees grew 3.3% for the period
- EBITDA (underlying)¹ of \$10.9 million, up 2.0% on the prior period
- NPAT (underlying)¹ of \$4.9 million, down 8.5% on the prior period
- Network expansion with 5 new Pacific Smiles Dental centres opened in H1 2018, bringing the total to 75 centres as at 31 December 2017
- Interim dividend of 2.3 cents per share (fully franked) declared (H1 2017: 2.2 cents per share)

Operational Update and Initiatives

H1 2018 was a period of ongoing business expansion of Pacific Smiles Group, with five new dental centres opened. The new dental centres are located in Leopold, Greensborough and Glen Waverley in Victoria, Gungahlin in the ACT and Buddina in Queensland. All are located in shopping centres and results have been pleasing to date. There is a healthy pipeline of development opportunities for the second half with a new Pacific Smiles Centre at Shellharbour in NSW due to open this month.

All of the new centres mentioned are Pacific Smiles Dental Centres, however, works are currently underway to create two more nib Dental Care Centres where eligible nib customers will be able to benefit from no-gap preventive care. An existing Pacific Smiles Dental Centre in Brisbane City will be rebranded to nib Dental Care Centre and a new nib Dental Care Centre will be built next to the Pacific Smiles Dental Centre in Woden in the ACT. Both of these new nib Dental Care Centres will open in H2 2018.

¹ Underlying results exclude \$2.4m for the impacts of one-off restructuring costs for the Parramatta dental centre and one-off costs associated with the acquisition of Everything Dentures.

The Pacific Smiles Dental Centre at Parramatta was right-sized and is now staffed for 7 dental chairs. Clinical treatments and services are being provided by dentists and prosthetists and visiting specialists, but no longer by hygienists. The response from patients, dentists and staff has been positive. Patient volumes have remained steady and EBITDA and margins have improved.

Everything Dentures was acquired in November. It is a niche business with expertise in clinical patient services and laboratory processes for dentures and other oral appliances. The strategic benefits include improved retention of denture patients across the growing dental centre network and capture of laboratory revenues for custom dentures and appliances.

Dentists are choosing to practice from dental centres owned and operated by Pacific Smiles in ever increasing numbers, as evidenced by the 20% increase in dentists over the last year to a total of 420. Our business model is appealing to dentists from both a lifestyle and professional perspective and we constantly seek ways to add value and further enhance the opportunities for dentists.

Dentist training and development has been a focus, with the appointment of a Graduate Dentist Mentor to continue to enhance our excellent program for new and recent graduate dentists. Initiatives such as this help to attract and retain the best dentists, which in turn, positively impacts upon patient experience and retention and most importantly, patient care.

Business Performance

Revenue for the period was \$50.5 million, up 10.8% on the prior period.

Total Patient Fees for the period were \$80.7 million, representing growth of 9.7% on prior period.

Same Centre Patient Fee growth of 3.3% for the period was lower than H1 2017 at 4.4% and below our 5% target. Trading was softer than expected in the half, however we saw improving momentum at the back end of the period. Patient volumes at the Parramatta dental centre have been steady following the right-sizing, which is a pleasing result. While the ex-DEP centres are heading in the right direction, they continued to act as a drag in the period. Encouragingly, Pacific Smiles continues to report high levels of patient satisfaction, with Net Promoter Score results above 75, a pleasing result and high by most benchmarks.

EBITDA (underlying) increased by 2% to \$10.9 million (H1 2017: \$10.7 million) during the half year compared with the prior comparative period. The same centre cohort was impacted by softer trading in the half against a largely fixed cost business and the ex-DEP centres in Parramatta and Town Hall, whilst showing stabilised performance, continue to generate margins below the level expected of centres of their size and maturity. The Parramatta dental centre restructure announced in October 2017 resulted in the \$2.3 million one-off impact of redundancy and impairment costs.

New centres opened in FY 2017 increased EBITDA in H1 2018 by \$0.1 million, and are performing in line with other cohorts, although their contribution in the half was impacted by the skew of 8 out of 12 centres opening in H2 2017.

Capital expenditure for H1 2018 was \$6.4 million (H1 2017: \$5.7 million), consisting predominantly of five new centre openings, the upgrade of the Bribie Island centre and additional surgeries in existing centres. The higher capital expenditure in the current period is driven by the opening of an additional new centre compared to H1 2017.

Dividend

The Board has declared an interim fully franked dividend of 2.3 cents per share to be paid on 4 April 2018. The record date for this dividend is 19 March 2018.

Trading Update and Outlook

Pacific Smiles provides the following update regarding the outlook for FY 2018, which remains unchanged at:

- EBITDA growth for FY 2018 of approximately 10% on FY 2017
- Patient Fee growth of 10 – 15% on FY 2017
- Same Centre Patient Fee growth of > 5% for FY 2018 (tracking +4.8% up till 13th February 2018)
- Opening at least 10 new dental centres in FY 2018, with 5 centres opened in the first half
- Corporate overhead expenses to grow in line with patient fees, with increased investment in training, IT and other enablers of network rollout
- Dividend policy unchanged, with a pay-out ratio in the range of 80-90% of NPAT for FY 2018

Commenting on the results John Gibbs, Pacific Smiles' Managing Director, said: "Positive progress was made in H1 2018 on expansion of the dental centre network, expansion of services offering via the acquisition of Everything Dentures, including Sculpt Laboratory, plus improvement of the operating results of the Parramatta dental centre. Combined with the works underway to reach more nib customers through an expanded nib Dental Care Centre network, Pacific Smiles is well positioned to benefit in H2 2018 and beyond."

Investor conference call

Pacific Smiles will host a conference call for investors to discuss the results.

Date: 21 February 2018

Time: 11.00am AEDT

Dial-in number: +61 2 8038 5221

Password: 9784588

Further information and enquiries

Complete half year results materials will be released to the ASX and will be available on the Company website via the following link:

<http://investors.pacificsmilesgroup.com.au/Investors/> or for further information, please contact:

Investor Relations

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