

# H1 2018 INTERIM RESULTS PRESENTATION



*Presented by:*

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- 1. PERFORMANCE HIGHLIGHTS**
- 2. BUSINESS OVERVIEW AND UPDATE**
- 3. RESULTS DETAIL**
- 4. GROWTH AND OUTLOOK**
- 5. APPENDIX**

## **SECTION 1**

# **PERFORMANCE HIGHLIGHTS**

**PacificSmiles**  
**DENTAL**

# H1 2018 RESULTS SUMMARY

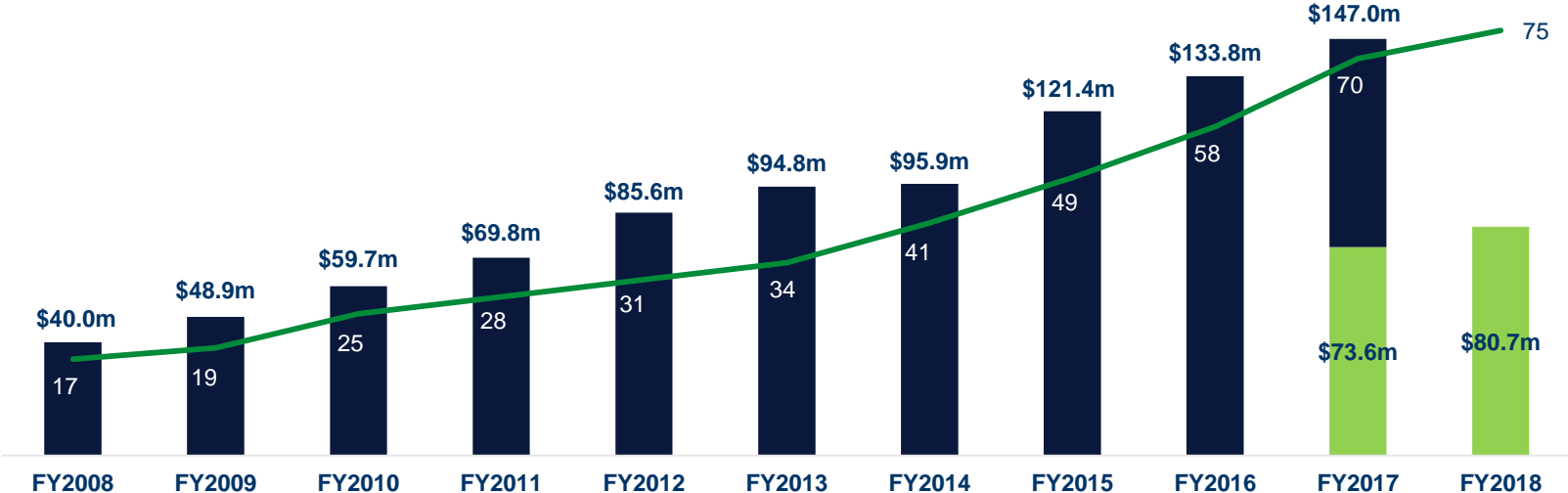
	PATIENT FEES	SAME CENTRE GROWTH	EBITDA Underlying	EBITDA / PATIENT FEES Underlying	NPAT Underlying	EPS Underlying	DPS	DENTAL CENTRES
	\$80.7m	+3.3%	\$10.9m	13.5%	\$4.9m	3.2 cents	2.3 cents	75
▲ YOY	+9.7%	-110bps <sup>1</sup>	+2.0%	-110bps <sup>1</sup>	-8.5%	-8.5%	+0.1 cent	+13

Note:

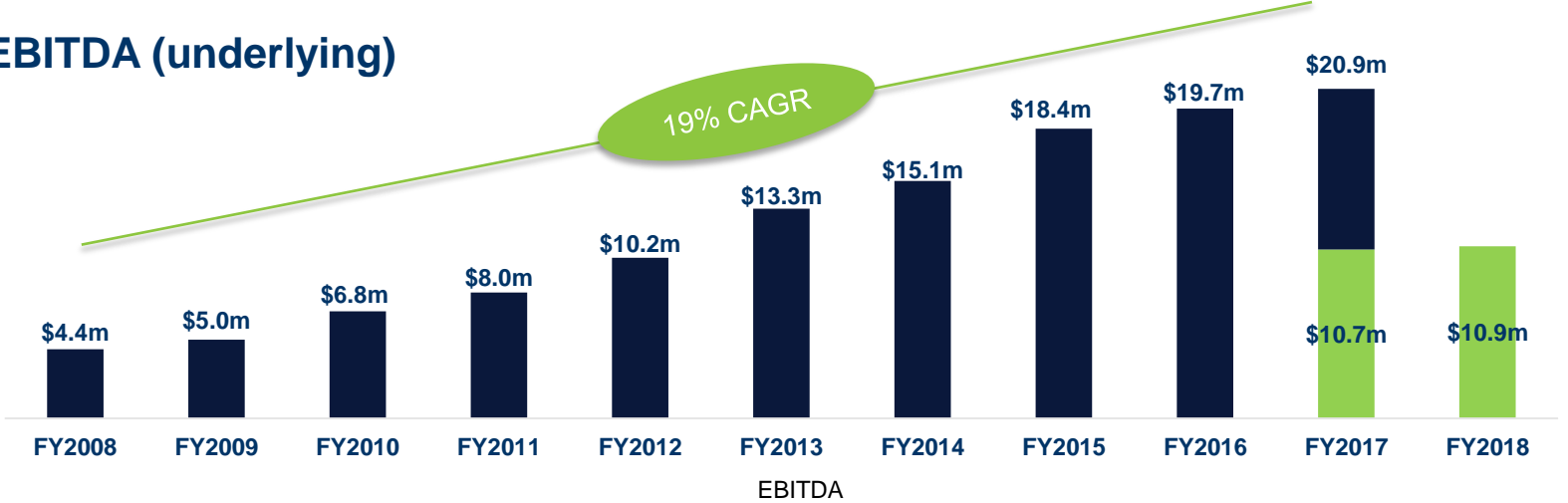
1. 100 bps is equivalent to 1%

# TRACK RECORD OF SUCCESS

## Patient Fees and Number of Centres



## EBITDA (underlying)



# H1 2018 OPERATIONAL SNAPSHOT

Dental Centres

75

21% Growth on pcp

Acquisition of  
Everything  
Dentures and  
Sculpt Dental Lab

NET PROMOTER  
SCORE

>75

Successful right-  
sizing of ex-DEP  
centre in  
Parramatta



NEW CENTRES

5



Commissioned  
Chairs

290

15% Growth on pcp

420

DENTISTS

20% Growth on pcp

Expansion of the  
Dentists Mentor  
Program

989

EMPLOYEES



# EVERYTHING DENTURES AND SCULPT LAB

- Completed on 7 November 2017 for upfront consideration of \$0.8m, plus \$0.3m earn out component over two years
- 11 locations, a mix of stand-alone denture clinics and Pacific Smiles dental centres
- Two labs located at Canberra and Parramatta, with additional lab sites being developed in close proximity to existing Pacific Smiles dental centre clusters
- Expanding presence at Pacific Smiles dental centres to better service denture patients both existing and new
- Strong alignment between Everything Dentures and Pacific Smiles



EverythingDentures





# PARRAMATTA DENTAL CENTRE RIGHT-SIZING

- Completed on 7 November 2017
- The restructure resulted in one-off EBITDA impact of \$2.3m - \$0.7m in redundancy costs and a \$1.6m non-cash impairment charge
- Now staffed to operate 7 chairs
- Hygienists services have been transferred to the dentists
- Patient response has been positive
- Patient volumes have been steady following the right-sizing
- Centre EBITDA and margins have improved although still below the level expected for a centre of this size and maturity



# nib DENTAL CARE CENTRE UPDATE

- Restriction of no-gap check-ups to nib Dental Care Centres from April 2017
- Pull forward of patients in March 2017 with lower volumes in April and May 2017
- Established two additional nib centres - nib Greenhills (co-branded) and nib Erina (standalone) in FY 2017
- Two additional nib centres being established in H2 2018
  - New nib centre at Woden ACT
  - Pacific Smiles Dental Eagle St QLD rebranding



## SECTION 2

# BUSINESS OVERVIEW AND UPDATE





**To improve the oral health of  
ALL Australians to world's best.**

**Our True  
Purpose**

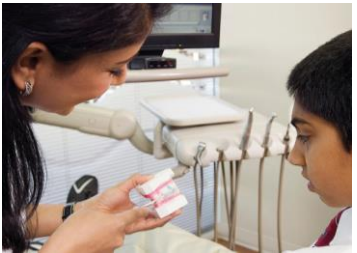
# OUR STRATEGIC FRAMEWORK



# STRATEGIC FRAMEWORK IN ACTION

Source of Competitive Advantage

A Perfect Patient Experience	Best in Class Dentists	High Performance Culture & Employees	Efficient & Effective Operations	Expansion & Growth
<p><b>Patient Satisfaction</b></p> <ul style="list-style-type: none"> <li>• Net Promoter Score above 75</li> <li>• Strong patient rebooking and retention</li> </ul> <p><b>Private Health Insurance Partners</b></p> <ul style="list-style-type: none"> <li>• Collaborative marketing arrangements</li> <li>• Preferential patient benefits</li> <li>• 8 nib Dental Care Centres with 2 additional centres opening in H2 2018</li> </ul>	<p><b>Dentist Clinical Autonomy</b></p> <ul style="list-style-type: none"> <li>• Practitioner sovereignty in clinical decision making</li> <li>• Dental Advisory Committee for input to clinical and professional matters, services, products, equipment and quality</li> </ul> <p><b>Practitioner Development</b></p> <ul style="list-style-type: none"> <li>• Graduate Mentoring Course</li> <li>• Regional Dentist Mentors for ongoing dentist development</li> </ul>	<p><b>Leadership and Development</b></p> <ul style="list-style-type: none"> <li>• LEADER professional development course for emerging managers</li> <li>• Business Excellence course for Centre Managers</li> </ul>	<p><b>Scale Operations</b></p> <ul style="list-style-type: none"> <li>• Group buying power</li> <li>• Network marketing benefits and partnership programs</li> <li>• Increased brand awareness</li> </ul> <p><b>Leverage Business Data</b></p> <ul style="list-style-type: none"> <li>• Business database for data analytics and business intelligence</li> </ul>	<p><b>Multi-State Branded Network</b></p> <ul style="list-style-type: none"> <li>• 67 are branded Pacific Smiles Dental, 8 are branded nib</li> <li>• Branding consistency to grow awareness, preference and trust</li> </ul> <p><b>Organic Rollout</b></p> <ul style="list-style-type: none"> <li>• 10+ years of executing greenfield rollout model</li> <li>• Proven unit economics</li> <li>• Cluster approach</li> </ul>



# DENTAL CENTRE NETWORK

Currently 76\* dental centres in total, of which 68 are branded Pacific Smiles Dental and 8 are branded nib Dental Care Centre



Note:  
\* Shellharbour opening February 2018

Queensland	
Bribie Island	Helensvale
Brisbane CBD	Morayfield
Browns Plains	Mt Ommaney
<b>Buddina</b>	Mt Gravatt
Burleigh Heads	North Lakes
Capalaba	Redbank Plains
Deception Bay	Strathpine
New South Wales	
Belmont	Narellan
Belrose	nib North Parramatta
Bateau Bay	Parramatta
Blacktown	Penrith
Brookvale	Queanbeyan
Campbelltown	Nowra
Charlestown	nib Newcastle
nib Chatswood	Rutherford
Erina	Salamander Bay
nib Erina	<b>Shellharbour (opening Feb 18)</b>
Forster	Singleton
Gladesville	nib Sydney
Greenhills	Toronto
nib Glendale	Town Hall
Jesmond	Tuggerah
Kotara	Wagga Wagga
Lake Haven	Warilla
Marrickville	nib Wollongong
Morriset	
Australian Capital Territory	
Belconnen	Tuggeranong
<b>Gungahlin</b>	Woden
Manuka	
Victoria	
Bairnsdale	Mill Park
Bendigo	Mulgrave
Cranbourne Park	Point Cook
Drysdale	Ringwood
<b>Glen Waverley</b>	Sale
<b>Greensborough</b>	Torquay
<b>Leopold</b>	Traralgon
Melbourne	Warragul
nib Melbourne	Waurm Ponds
Melton	Werribee

## SECTION 3

# RESULTS DETAIL





# SUMMARY INCOME STATEMENT

FOR THE HALF YEAR ENDED 31 DECEMBER 2017

\$ MILLIONS	UNDERLYING H1 2018	UNDERLYING H1 2017	CHANGE
<b>Revenue</b>	50.5	45.6	10.8%
<b>Gross profit</b>	47.4	43.0	10.2%
<b>EBITDA</b>	10.9	10.7	2.0%
Depreciation and amortisation	(3.7)	(2.9)	(28.5%)
<b>EBIT</b>	7.2	7.8	(7.7%)
Net interest expense	(0.1)	(0.1)	-
<b>Profit before tax</b>	7.1	7.8	(8.4%)
Tax	(2.2)	(2.4)	8.3%
<b>Net profit after tax</b>	4.9	5.4	(8.5%)

## Key operating metrics

Number of Dental Centres	75	62	21.0%
Number of Commissioned Dental Chairs	290	253	14.6%
Patient Fees (\$m)	80.7	73.6	9.7%
Same Centre Patient Fees growth	3.3%	4.4%	

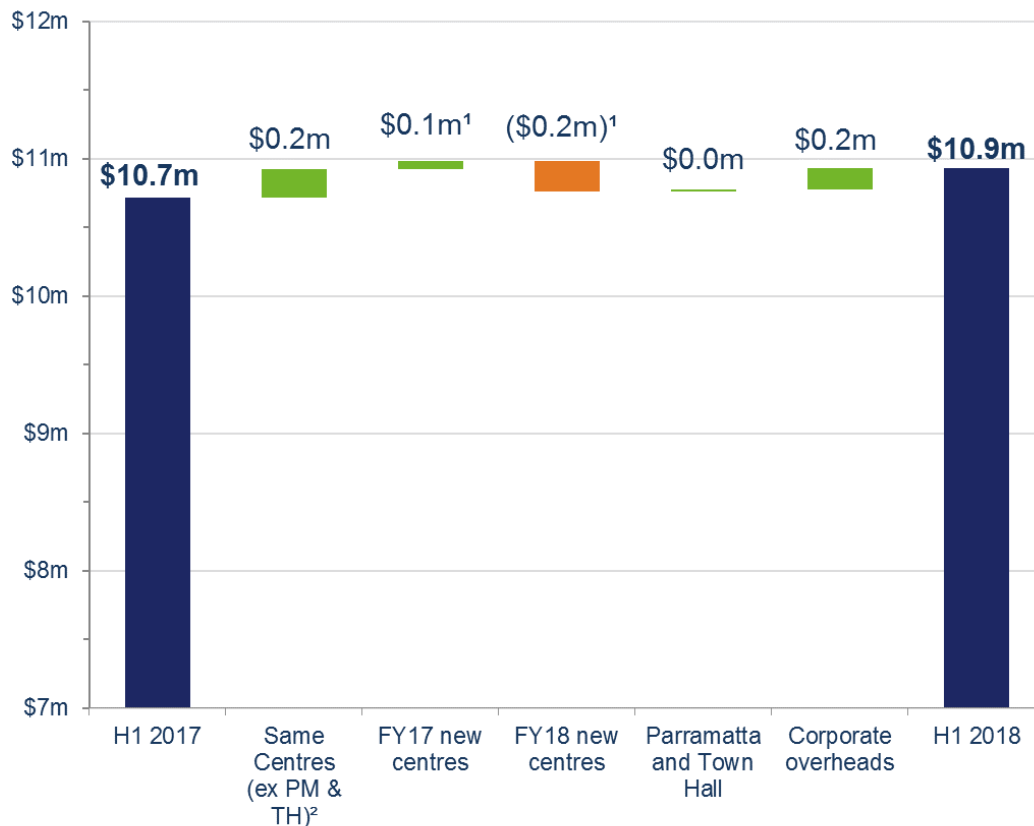
## Key financial metrics

Earnings per share (cents)	3.2	3.5	
EBITDA margin	21.7%	23.5%	
EBITDA to Patient Fees margin	13.5%	14.6%	
EBIT margin	14.3%	17.2%	

- Revenue up 10.8% to \$50.5 million reflecting growth from new centres opened in FY 2018 and FY 2017 and patient fee growth in same centres
- Same Centre Patient Fee growth of 3.3% (H1 2017: 4.4%), below our expectations of ~5%
  - The ex-DEP centres in Parramatta and Town Hall, whilst showing stabilised performance, continued to act as a drag in H1 2018
  - Excluding these two centres, same centre patient fees grew 4.4% in H1 2018 (H1 2017: 6.1%)
- EBITDA to Patient Fees margin down 110bps due to patient activity in the half being less than expected against a largely fixed cost base
- D&A increased by \$0.8 million, reflecting the acceleration of new centre developments in recent years

# H1 2018 EBITDA BRIDGE

## Composition of EBITDA Change



The key drivers of the movement are summarised in the adjacent chart:

- Same centres were impacted by softer trading in the half. The half started lower than expected, but improved towards the back end
- FY 2017 new centres performing in line with other cohorts, but their contribution is impacted by the skew of 8 centres opening in H2 2017
- Start up losses from new centres opened in FY 2018 - 5 new centres were opened (H1 2017- 4), with 2 opening in December 2017
- Parramatta and Town Hall (ex-DEP centres) performed per expectation, following the restructure of Parramatta
- Corporate overheads are favourable due to lower employee related costs in H1 2018. Corporate overheads will resume growth in 2H 2018

Notes:

1. EBITDA contribution impacted by the timing of new centre openings
2. In the chart above, PM refers to Parramatta and TH refers to Town Hall

# H1 2018 CASHFLOW & BALANCE SHEET

\$ MILLIONS	STATUTORY	STATUTORY
	H1 2018	H1 2017
<b>EBITDA</b>	8.5	10.7
Other non-cash items	1.8	0.1
Changes in working capital (exc. Income tax)	1.1	1.8
Net interest paid	(0.1)	(0.1)
Income tax paid	(2.2)	(2.2)
<b>Net cash flow from operating activities</b>	<b>9.1</b>	<b>10.3</b>
Capital expenditure	(6.4)	(5.7)
Business acquisitions	(0.8)	-
Other investing activities	-	-
<b>Net cash flow from investing activities</b>	<b>(7.2)</b>	<b>(5.7)</b>
Borrowings (net)	4.5	(0.1)
Dividends	(5.6)	(5.3)
<b>Net cash flow from financing activities</b>	<b>(1.1)</b>	<b>(5.4)</b>
<b>Net cash flow</b>	<b>0.8</b>	<b>(0.8)</b>

\$ MILLIONS	STATUTORY	STATUTORY
	31 DEC 2017	30 JUN 2017
Cash and cash equivalents	6.6	5.9
Other current assets	4.4	4.6
Property, plant and equipment	44.5	41.9
Other assets	15.7	15.8
<b>Total Assets</b>	<b>71.2</b>	<b>68.2</b>
Payables	10.5	9.8
Provisions	9.7	9.1
Borrowings	9.5	5.0
Other liabilities	-	-
<b>Total Liabilities</b>	<b>29.7</b>	<b>23.9</b>
<b>Net Assets</b>	<b>41.5</b>	<b>44.3</b>

Note:

1. Cash conversion calculated as operating cashflow excluding tax and net finance cost as a ratio of EBITDA

2. Amounts in the table have been rounded to the nearest \$100,000. Any discrepancies between totals and sums of components are due to rounding

- Cashflow from operating activities was impacted by the timing of trade creditor payments between the two periods
- Strong EBITDA cash conversion<sup>1</sup> of 134%
- The non cash item includes the impairment of the Parramatta dental centre (\$1.6m)
- Total capital expenditure of \$6.4 million, including:
  - 5 new centres opened (\$4.0m)
  - Upgrade of Bribie Island centre (\$0.4m)
  - IT Infrastructure (\$0.3m)
  - Balance includes commissioning of 7 additional surgeries in existing centres
- FY 2017 final dividend of 3.7 cps paid in October 2017
- Increases in property, plant and equipment reflect the investment in new centres
- Borrowings increased due to the drawdown of debt to fund the new centre rollouts and Everything Dentures acquisition

## SECTION 4

# GROWTH AND OUTLOOK

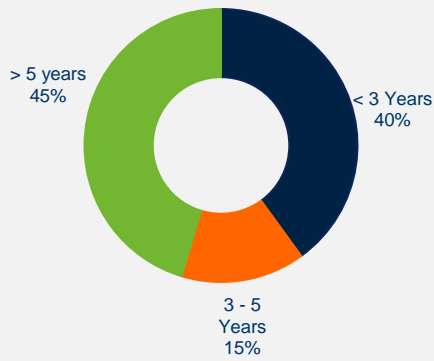


# GROWTH FROM EXISTING CENTRES

## Centre Maturity Profile

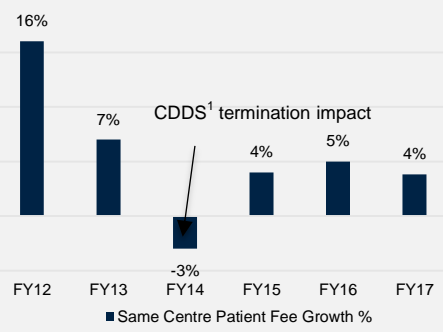
- 40% of centres are less than 3 years old

Centre maturity profile (years opened)



## Same Centre Patient Fees

- Average same centre patient fees growth of 5.5% pa over the six years to 30 June 2017
- Winning market share



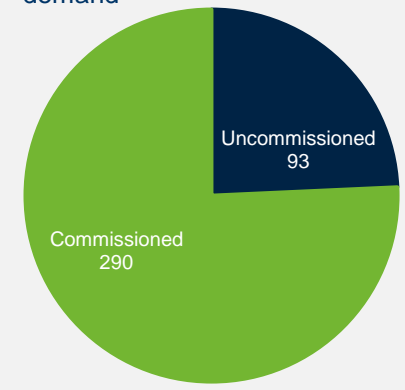
1. Chronic Disease Dental Scheme

## Growth Strategies

- Strategies to increase same centre patient fees growth include:
  - Innovative marketing initiatives to build brand awareness to attract new patients
  - Improve patient engagement and loyalty, and promote regular attendances
  - Introduce new clinical services to support patient demand at centres
  - Increase hours of operation
  - Additional surgeries

## Network Capacity

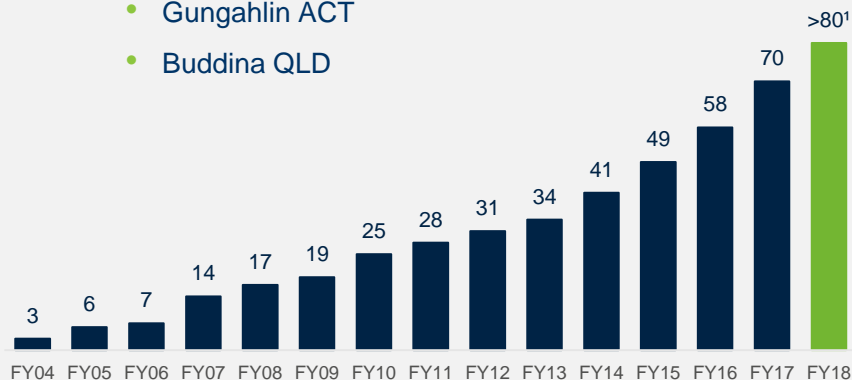
- As at 31 December 2017 there were 76% of dental chairs commissioned and a capacity for a further 24% to meet future demand



# GROWTH FROM NEW CENTRES

## New Centre Rollout

- New centre rollout rate has accelerated, with 9 new centres in FY 2016 and 12 in FY 2017 and at least 10 new centres expected in FY 2018
- 5 new centres in H1 2018 compared to 4 in H1 2017
- H1 2018 new locations:
  - Leopold VIC
  - Greensborough VIC
  - Glen Waverley VIC
  - Gungahlin ACT
  - Buddina QLD

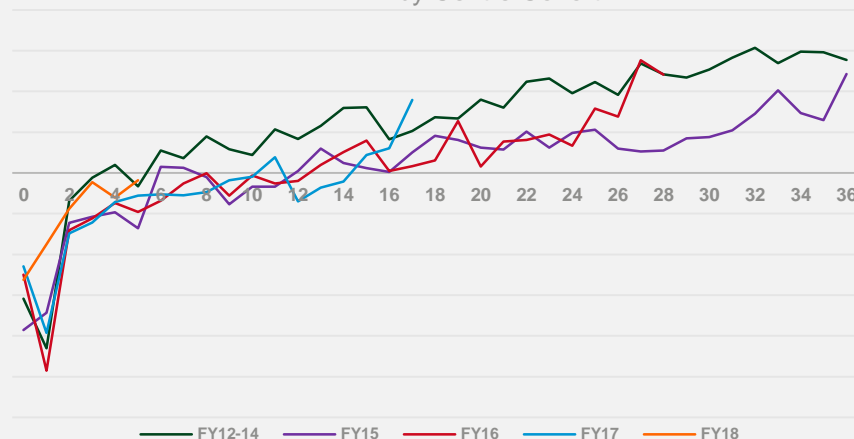


Note:  
1. FY18 based on target of at least 10 new centres

## Cohort Performance

- The past five cohorts have followed a consistent path of EBITDA ramp-up over the first 36 months of operation
- The centres opened in FY 2016 and FY 2017 have achieved profitability within the first 12 months of operation

EBITDA by Centre Cohort



# STRATEGIC FOCUS AREAS FOR H2 2018

## A Perfect Patient Experience

- Automated treatment plan follow up communication system
- Intra-oral scanner trial
- Collaboration with Game Day mouthguards

## Best in Class Dentists

- Structured mentoring programs for graduates
- Regional Clinical Mentors pilot
- Second annual Inspire conference for dentists

## High Performance Culture & Employees

- Centre Manager orientation program
- Business Excellence Manager training program
- New entrant trainee system

## Efficient & Effective Operations

- New IT outsourced service provider
- Systemised utilisation planning
- Further leveraging the business database for data analytics and enhanced reporting capability

## Expansion & Growth

- Five new centres committed for opening in H2 2018
- Improving ex-DEP dental centre performance
- Expansion of Everything Dentures and Sculpt Lab
- Rebrand PSD Eagle St to an nib centre and establish nib centre in Woden ACT in excess space

# FY 2018 OUTLOOK

- **FY2018** guidance is **unchanged**
- **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 13<sup>th</sup> February 2018)
- Opening at least **10 new dental centres** in FY 2018 (**5** 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



## SECTION 5

# APPENDIX



# STATUTORY – UNDERLYING RECONCILIATION

	STATUTORY	ADJ'S	UNDERLYING	STATUTORY	ADJ'S	UNDERLYING
\$ MILLIONS	H1 2018	H1 2018	H1 2018	H1 2017	H1 2017	H1 2017
<b>Revenue</b>	50.5	-	50.5	45.6	-	45.6
Direct expenses	(3.3)	0.3	(3.1)	(2.5)	-	(2.5)
<b>Gross profit</b>	47.1	(0.3)	47.4	43.0	-	43.0
Other income	0.6	-	0.6	0.7	-	0.7
<b>Expenses</b>						
Employee expenses	(21.8)	0.5	(21.3)	(19.1)	-	(19.1)
Consumable supplies expenses	(4.2)	-	(4.2)	(3.9)	-	(3.9)
Occupancy expenses	(5.8)	-	(5.8)	(4.9)	-	(4.9)
Marketing expenses	(0.8)	-	(0.8)	(0.8)	-	(0.8)
Administration and other expenses	(6.6)	1.7	(4.9)	(4.3)	-	(4.3)
<b>EBITDA</b>	8.5	2.4	10.9	10.7	-	10.7
Depreciation and amortisation	(3.7)	-	(3.7)	(2.9)	-	(2.9)
<b>EBIT</b>	4.8	2.4	7.2	7.8	-	7.8
Net finance costs	(0.1)	-	(0.1)	(0.1)	-	(0.1)
<b>Profit before tax</b>	4.7	2.4	7.1	7.8	-	7.8
Income tax expense	(1.9)	(0.2)	(2.2)	(2.4)	-	(2.4)
<b>Net profit after tax</b>	2.7	2.2	4.9	5.4	-	5.4

- Adjustments to the H1 2018 Income Statement remove the impacts of one-off restructuring costs for the Parramatta dental centre and one-off costs associated with the acquisition of Everything Dentures

Note:

- Amounts in the table have been rounded to the nearest \$100,000. Any discrepancies between totals and sums of components are due to rounding

# THANK YOU

