



Pacific Smiles Group Limited (ASX: PSQ)
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23 August 2018

ASX ANNOUNCEMENT

Pacific Smiles Group Limited – 2018 Full Year Results

Pacific Smiles Group Limited (ASX: PSQ) ("Pacific Smiles" or "the Company") today announced its financial results for the full year ended 30 June 2018.

Key Financial Highlights

The key financial highlights from the result include:

- Patient Fees generated by the dentists working at dental centres owned and operated by Pacific Smiles were \$164.5m, up 12.0% on the prior period
- Same Centre Patient Fees grew 5.1% for the period
- Revenue of \$104.5m, up 14.3% on the prior period
- EBITDA (underlying) of \$21.5m¹, up 2.9% on the prior period
- NPAT (underlying) of \$9.3m¹, down 9.7% on the prior period
- 10 new dental centres opened, comprising 9 Pacific Smiles Dental Centres and 1 nib Dental Care Centre, bringing the total to 80 centres as at 30 June 2018
- Final dividend of 3.8 cps (fully franked) declared bringing full year dividends to 6.1 cps (FY17 5.9 cps)

Business Initiatives

As Pacific Smiles continues to scale up and grow its presence via an expanding network of dental centres, various business initiatives are undertaken to continually improve the quality of the business and its competitive advantage in the market. During FY18, the significant business initiatives that were delivered included:

- Acquisition of Everything Dentures and Sculpt Lab
- Expansion of the nib Dental Care Centre network to advantage from the changes to the no-gap arrangements
- Roll-out of 10 new dental centres in Figtree and Shellharbour in the Illawarra, Balgowlah in Sydney, Gungahlin and Woden in the ACT, Leopold, Greensborough and Glen Waverley in Victoria and Buddina and Runaway Bay in Queensland
- A total of 14 additional chairs commissioned in existing centres to meet patient demand
- Remodelled and upgraded new graduate dentist mentoring and training program

¹ Underlying results exclude a number of non-recurring costs. See the 2018 Results Presentation Appendix for a reconciliation of underlying to statutory results.

- Launch of business intelligence systems linked to data warehouse
- Implementation of new arrangements for IT help desk and servicing
- Improvement of systematic patient communications to drive improvements in frequency of patient attendance

Business Performance

Total patient fees for FY 2018 were \$164.5m, representing growth of 12% for the period, compared to our guidance at the beginning of FY 2018 of 10-15% growth.

Same centre patient fees growth improved to 5.1% compared to the prior year of 3.8%. Same centre patient fees growth was 3.3% in H1 2018. Trading improved in H2 2018 with same centre patient fee growth of 6.8% achieved. Despite the improvement in the second half, we were expecting higher growth in May and June especially in the context of lower growth in the prior period.

Patient volumes at the Parramatta dental centre were steady following the right-sizing in October 2017, which is a pleasing result. The ex-DEP centres in Parramatta and Town Hall are showing improved performance, however they continue to generate margins below the level expected of centres of their size and maturity. The Parramatta dental centre restructure resulted in the \$2.3m one-off impact of redundancy and impairment costs.

EBITDA for the year was \$21.5m (underlying), up by 2.9% on the prior year result of \$20.9m (underlying). EBITDA to Patient Fees margin decreased from 14.2% to 13.1%. The key drivers were:

- IT investment - approximately \$600k of incremental IT expenditure related to data connectivity and network infrastructure to support PSQ's "cloud first" IT roadmap
- Cohort mix – the proportion of centres in ramp up phase (i.e. faster growing but lower margin) increased as a percentage of the total. In FY 2018 the cohort of centres opened FY 2011 to FY 2016 inclusive comprised 38% of the total compared to 32% in FY 2017
- Labour efficiency – our mature centre cohort recorded patient fee growth of 2.0%, with expenses growing at approximately 4%. In future we are aiming to improve labour matching to the level of patient activity, through various initiatives including improved business intelligence reporting

New centres opened in FY 2017 increased EBITDA and are performing in line with other cohorts. EBITDA was impacted by start-up losses from 10 new centres opened in FY 2018 (FY 2017: 12), with 5 opening in the second half of the financial year, of which 3 were in June 18.

Higher depreciation costs associated with the rollout strategy of new centres, resulted in the underlying NPAT decreasing by 9.7% to \$9.3m compared to \$10.3 million for the prior year.

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.

Capital expenditure was \$13.8m for the year, including \$8.3m on 10 new centres, \$1.1m for centre upgrades at Greenhills and Bribie Island and \$0.5m for the Brisbane CBD centre rebranding to nib. The balance includes equipment replacements, commissioning of 14 additional surgeries in existing centres and IT infrastructure investments.

Dividend

The Board has declared a final fully franked dividend of 3.8 cents per share to be paid on 5th October 2018. The record date for this dividend is 20th September 2018.

Outlook

Pacific Smiles provides the following update regarding the outlook for FY 2019, which is consistent with the update provided in June:

- EBITDA for FY 2019 is expected to be at least 10% up on prior year
- Total patient fee growth of 10% to 15%
- Same centre patient fee growth of >5% (same centre patient fee growth is approximately 9.3% for the first 7 weeks of FY 2019)
- Opening at least 10 new dental centres, with a strong pipeline, including 4 sites already committed for FY 2019
- Dividend policy pay-out ratio in the range of 70-100% of NPAT for FY 2019

On 7 August 2018 Pacific Smiles announced the appointment of Mr Philip McKenzie as Chief Executive Officer and Managing Director, effective 29 October 2018. Mr McKenzie will succeed Mr John Gibbs who has been in the leadership team at Pacific Smiles for the past 14 years, 11 of those in the capacity of CEO and Managing Director.

Mr McKenzie brings to Pacific Smiles a pedigree of organic rollout allied healthcare experience and also a strong consumer background both in Australia and internationally. Mr McKenzie's passion for purposeful culture and driving results through people was identified as an excellent fit for Pacific Smiles.

Bob Cameron AO, Chairman of the Board said: "On behalf of the Board, staff, dentists and all shareholders, we sincerely thank John Gibbs for his outstanding role in getting Pacific Smiles to where it is today as one of the most successful organic rollout dental models in the world. John's extreme integrity and hard work have been hallmarks of his time leading the business. We look forward to John's ongoing input as he facilitates the transition to a new leader".

Pacific Smiles is also pleased to announce the appointment of Mr Hilton Brett to the Board as Non-executive Director. Mr Brett has recently retired from his role as joint CEO of ASX listed retailer Accent Group, a business with 450 retail outlets and \$800m of sales. With 12 years as an integral part of Accent's successful growth, Mr Brett brings deep operational expertise to the Board, including direct experience in building teams, systems and processes to support the rollout of a large multi-site business.

Investor Conference Call

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

- Date 23 August 2018
- Time 11am AEST
- Dial-in number +61 2 8038 5221
- Password 5649637

Further information and enquiries

Complete full year results materials are 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:

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