Pacific Smiles Group Limited

2018 Annual General Meeting

Managing Director's Script

Good afternoon everyone and thank you for joining us for the Pacific Smiles Annual General Meeting 2018.

I'm Phil McKenzie, the CEO and Managing Director and today it is my pleasure to provide you with an update on company performance and progress. It is a privilege to have taken on the leadership of such a unique Australian success story. There is a significant market opportunity in Australia and I believe the Pacific Smiles' consistently branded and operated organic rollout model is an excellent way to address the market. I am excited about working with the practitioners, staff and board to lead Pacific Smiles through its next phase of growth.

I'd like welcome and introduce a few members of the Pacific Smiles executive leadership team who are in attendance today – Paul Robertson COO, Allanna Ryan CFO, Nadia Henry Chief Marketing Officer, Emma McKenny Head of People & Culture.

During the next few busy months I will be diligently learning the business, understanding the rhythm of the market and with my executive team evolving the strategic plan to ensure we on point to deliver on the market potential. I would also like to acknowledge the positive and thoughtful approach that the PSG board and John Gibbs have taken to transitioning me into the organisation.

I will start with the key financial highlights for the 12 months to 30 June 2018.

FY2018 was a busy year for Pacific Smiles Group. Trading was softer than we expected in the first half but improved in the back-end of the half and continued into the beginning of H2 2018 where we saw same centre patient fee growth of 6.8%.

The key features of the result are as follows:

- Patient Fees across the Pacific Smiles dental centre network of $164.5m, up 12% on the prior year
- Our statutory revenue was $104.5 million, also up 14.3% on the prior year
- Same centre Patient Fees grew 5.1% for the period – up from 3.8% growth in the prior year
- EBITDA (underlying) of $21.5 million was up 2.9% on the prior year result.
- Underlying EBITDA to patient fees margin of 13.1% was down by 110 basis points on prior year result
- Full year underlying NPAT was $9.3 million, down 9.7% on the prior year result
- Underlying Earnings Per Share of 6.1 cents was down by 9% on prior year
- We have declared a final dividend of 3.8 cents per share, fully franked, bringing the full year dividend to 6.1 cents per share. This compares to 5.5 cents per share in the prior year.
- A total of 10 new centres were opened in FY18.
- The balance sheet reflects a well-funded position. We expect to be able to continue to fund our growth plans from strong operating cashflows and modest debt, after allowing for a dividend payout ratio of 70-100% of NPAT.

In summary, although at the start of the year we had expected slightly higher growth in FY18 than we ultimately delivered, we are pleased with the continued expansion and development of our dental centre network.

Now recapping on the operational highlights for financial year 2018.

We added 10 new centres, bringing our network of dental centres to a total of 80, which was a 14% increase on 2017. We ended the year with 376 dentists, representing growth of 10% on 2017 and just over one thousand employees, as we continue to scale up the organisation on the back of the accelerated roll-out of new centres.

Most new centres contain two commissioned chairs, with capacity for 1 or 2 more surgeries in the future as patient demand grows. The dental chairs in the new centres plus additional commissioned chairs in existing centres increased the total number of commissioned chairs to 309, representing 12% growth.

A continued focus on superior patient experience was reflected in the Net Promoter Score strengthening to being above 75. Our staff and dentists deliver great care and are very proud of the scores attributed to us by our patients.

Looking after our dentists (who are as much a customer as out patients are) is a key feature of our business model and we bolstered our focus on dentist training during the year with improvements to our new graduate training program and establishment of dentist mentors in various regions.

Our Pacific Smiles Dental Centre in Parramatta was successfully right-sized to seven surgeries, immediately reducing the cost base and uplifting the EBITDA at this centre. This was one of three dental centres acquired from Medibank in 2014 and despite a relocation to new premises, has underperformed and been problematic.

We made a small acquisition during the year, of Everything Dentures and Sculpt Lab, a fledgling business with which we were working closely for the provision of dentures to patients attending our dental centres. The acquisition has allowed for great alignment and an acceleration of placement of prosthetists / denture experts across our dental centre network. The laboratory business, where the custom dentures and other prosthetic dental products are made, provides us with an additional income stream. Previously, all lab work was referred outside of the group.

We describe our growth strategy in four key streams.

Growth from existing centres, as they mature and as their capacity can be stepped up by activating non-commissioned surgeries to meet growing patient demand.

Growth from new centres as we continue to roll out at least 10 new centres per year, building towards our long-term network potential of at least 250 centres.

Growth through the introduction of additional dental services across both new and existing dental centres, via training and development activities and engagement of highly skilled practitioners.

Growth through increased scale and as the newer dental centres ramp up over time, the ability to leverage fixed overheads will underpin margin expansion and profit growth

To support our successful growth strategy, we hone and enhance every element of our successful formula for dental centre rollouts. Selection of shopping centres, identification of preferred tenancy locations, design excellence, construction quality, recruitment and team building, pre-opening marketing, patient care and customer service. It is all subject to continuous quality improvement.

New centres typically make a loss in their first year of operation. Group profitability is impacted by the year 1 losses of each cohort of new centres.

However, centres typically make a positive contribution in year 2 and achieve a centre EBITDA to patient fees margin of 11%.

Group medians for all centres opened for more than 2 years show that a typical centre has 4 surgeries, generates $2.3m in patient fees and $0.5m in EBITDA for a Centre EBITDA to Patient Fees margin in excess of 20%.

The other key to our growth strategy is the opportunity for growth from existing centres.

A significant proportion of our portfolio is “immature” with 39% of our centres being less than three years old. This assists us in achieving solid same centre growth rates. Our same centre patient fees growth has averaged 5.4% p.a. over the seven years to 30 June 2018. Our new centres generally show sustained growth over multiple years and grow at rates above our Group average for 3-5 years or more.

Growth in existing centres is underpinned by marketing initiatives to attract new patients and by the delivery of a superior patient experience in-centre and between appointments to generate repeat attendances and positive word-of-mouth.

As patient demand builds and the clinical services are expanded, additional surgeries can be activated with modest additional capital expenditure and/or hours of operation can be extended. Currently, 77% of our available surgeries are commissioned and we have 92 further chairs to commission to meet future demand as we continue to grow our market share.

We design and implement our strategy in the context of our five strategic pillars.

Training and development is a recurring theme through these pillars. We continue to improve our mentoring programs and new graduate programs for dentists and management development programs for our employees. Front line training will feature prominently with field based trainers across the business.

Technology and data also feature prominently, with continued investments to automate processes, leverage data and shift to more cloud based applications. Scalable systems, deeper data insights, greater operational efficiencies and most importantly, better and more timely information to dentists and patients, are some of the benefits that will continue to be generated by these technology investments.

Expansion of the dental centre network will continue and we are currently refreshing our long term network plan with demographic experts.

I will finish today by recapping and reaffirming our FY19 guidance.
The guidance remains unchanged from the last update at the annual results presentation in August 18.

- EBITDA for FY19 is expected to be at least 10% up on prior year
- Total patient fee growth in the range of 10% to 15% is expected on FY 2018
- Same centre patient fees growth of greater than 5% for FY 2018, having achieved 8.5% up to 16 November 2018
- Opening at least 10 new dental centres in FY19, with 3 centres already opened and 1 new site committed. There is also a further 4 sites in lease negotiations

- FY 2018 dividend payout ratio expected to be in the range of 70-100%

We are confident in the continued success of our new centre roll-out and the performance of our business will be enhanced as the more recent cohorts of new centres, mature. Pacific Smiles is committed to innovation and improvement as we invest for growth and expand our network and work towards our true purpose of improving the oral health of ALL Australians to world's best.