Pacific Smiles Group Limited
2019 Annual General Meeting
Managing Director's Script

Good afternoon everyone and thank you for joining us for the Pacific Smiles Annual General Meeting 2019.

I'm Phil McKenzie, the Chief Executive Officer and Managing Director and today it is my absolute pleasure to provide you with an update on company performance and progress. With 12 months now at the helm I can confirm the business is in excellent health and is well positioned to continue on its positive performance trajectory. Our unique roll out model differentiates us in the marketplace and our clear focus on servicing the dentist provides confidence to the professionals who chose to work with us that they are our priority.

As I noted this time last year there really is a significant opportunity in the $11b industry across Australia and I believe the Pacific Smiles' consistently branded and operated organic rollout model is an excellent way to address the market.

Working with the practitioners, staff and board to lead Pacific Smiles into its next phase of growth has been rewarding these last 12 months. I know our thoughtful, considered approach using the learnings from our first 90 dental centres and drawing from the talent we have working with us that the future is indeed bright at Pacific Smiles.

I'd to like welcome and introduce the Pacific Smiles executive leadership team – Paul Robertson COO, Allanna Ryan CFO, Alison Hughes our Clinical Director, Ciara Rocks Chief Marketing Officer, Emma McKenny our Head of People & Culture.

I will start with the key financial highlights for the 12 months to 30 June 2019.

The key features of the result are as follows:

- Patient Fees across the Pacific Smiles dental centre network of $187.4m, up 13.9% on the prior year
- Same centre Patient Fees grew 8.6% for the year – up 350 basis points from the prior year
- EBITDA (underlying) of $22.8 million was up 6% on the prior year result.
- Full year underlying NPAT was $8.9 million, down 3.5% on the prior year result.
- Underlying Earnings Per Share of 5.8 cents was down 4.9%
- We have declared a final dividend of 3.5 cents per share, fully franked, bringing the full year dividend to 5.8 cents per share. This compares to 6.1 cents per share in the prior year.

Trading built steadily through the year and we were pleased with our consistency in operational execution which helped to maintain healthy patient volumes outside of the peak periods of May / June and November / December. The targeted database marketing for existing centres and the well-executed local community activities for new centre openings is positively increasing our patient volume.

Now recapping on the operational highlights for financial year 2019.

In FY19 we've added 10 new centres, growing our network of dental centres to a total of 89.

We ended the year with 545 dentists representing growth of 17% on the prior year and now we now have 1,185 employees, as we continue to scale & develop the organisation in line with the roll-out of our new dental centres.

Our new Centres contain at least two commissioned chairs from opening, with the capacity for 2 or more surgeries in the future as the patient demand continues to grows. The dental chairs in the new centres plus additional commissioned chairs in existing centres increased the total number of commissioned chairs to 351, representing 13.6% growth.

Along with growth, our continued focus on creating a perfect patient experience is reflected in the Net Promoter Score remaining above 80. We are extremely proud of our consistently high net promoter scores. The provision of a perfect patient experience for each patient at every attendance is paramount. The emphasis on our employee development and the support of continuous learning for the dentists is testament to this priority.

A significant proportion of our portfolio is "immature" with 36% 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 5.3% p.a. over the five years to 30 June 2019. While a notable step up in FY19 our centres generally show sustained growth over multiple years and growth above our network average for 3-5 years plus.

Growth in existing centres is evolving with intelligent marketing initiatives to attract both new patients and continually reengage existing patients with the commitment of a superior patient experience in-centre and between appointments to generate repeat attendances and positive word-of-mouth. Over time, the range of clinical services is being expanded via engagement of more practitioners and through the facilitation of training and development.

As patient demand builds and the clinical services are expanded, additional surgeries are activated with modest additional capital expenditure and/or hours of operation can be extended. Currently, 80% of our available surgeries are commissioned and we have 88 further chairs to commission to meet future demand as we continue to grow our market share.

Our continued strategic collaborations with private health insurers attract more patients and help to make professional oral care accessible and affordable.

We hone and enhance every element of our successful formula for dental centre rollout. 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.

By way of example Keysborough which recently opened in Victoria achieved profitability by trading month 6 and on its current chair utilisation stats will be moving to commission an additional surgery before its first 12 months are up. Our new PSD Aspley Centre in Queensland achieved profitability in just 3 months, this centre too is accelerating its planned time frame to commissioning additional surgeries. These are important indicators of improving our execution

We show the average performance of the centres opened from July 2013 to June 2018 in their first 3 years as well as the median performance of all centres open for more than 5 years in FY19.

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, as shown by the table on this slide, centres typically make a positive contribution in year 2 and achieve a centre EBITDA to patient fees margin of 10%.

Group medians for all centres opened for more than 5 years show that a typical centre, generates approximately $2.5m in patient fees and around $0.5m in EBITDA for a Centre EBITDA to Patient Fees margin in excess of 20%.

Our experience is that centres take many years to reach maturity and continue to show margin expansion over an extended time period.

Digital scanning and 3D printing is currently at the forefront of innovation in the dental industry and we too subscribe to the idea that digitisation is a pivotal part of the future in oral healthcare. As we continue on our dedicated dental centre growth curve we have identified an opportunity to enhance our proven rollout strategy of large scale dental centres with the development of Pacific 'Smiles Care Centres'.

These Smiles Care Centres will be small format, fresh and welcoming spaces that encourage the next generation of patients to engage with Pacific Smiles for all their oral care needs. This model will enable us to continue to strive

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and deliver on our true purpose to improve the oral health of ALL Australians to world's best by increasing footprint, accessibility, patient base and product and service reach.

A Smiles Care Centre provides potential for us to work with new partners and existing partners in a different way, across technology, supplies and health fund member journeys, providing more and better to our current and future patients. This way, we can focus on what we're good at and partner as we learn.

We believe this hub and spoke approach where the Smiles Care Centre begins the patients journey with Pacific Smiles, is the natural extension to our existing 90 plus dental centres and ties perfectly with our True Purpose 'To improve the oral healthcare of ALL Australians to worlds best'. We can continue to develop and support our dentists by operating Smiles Care Centres and we know that operating our businesses in close proximity or clusters has proven to be successful for us across financial metrics.

We are excited to share developments with you as we bring this concept to market during the second half of FY20.

Turning now to our trading update and guidance for FY20.

Since our last update to the market at our full year results in August, we have been very pleased with the momentum in our business. We have focused strongly on operational excellence and doing the basics very well.

Same centre patient fee growth is 9.7% as at 18 November 2019.

The same centre patient fee growth was adversely impacted by approximately 250 basis points due to a series of IT network disruptions in the first 2 weeks of November. Several servers across our dental centre network were impacted by a virus, in response to which we brought down our entire network and reviewed as a precautionary measure.

Based on advice by expert third party consultants to date, none of our patient data has been compromised.

We have now returned to normal trading and expect no further business disruption from this issue going forward.

We expect that our EBITDA will be reduced by approximately $500,000 in the current half as a result of the network downtime. We expect the majority of the patients who could not be seen during the outage will rebook prior to 31 December 2019.

Pacific Smiles provides the following revised FY20 guidance (excluding the impacts of AASB 16 Leases): -

• Same centre patient fee growth unchanged at high single digits. Although we have started the FY strongly, we expect this growth to taper as we moved into the second half and comp against stronger performance in H2 FY19.

• the first 4 months of trading were above expectations for both patient fees and EBITDA. As a result, Underlying EBITDA is revised from 6-12% growth YOY to 8-14% YoY growth, excluding the $500,000 estimated impact of the network outage.

• New dental centre openings unchanged at 7-10. We will have 4 new centres open this first half and we have a further 3 already committed for H2 FY20.

• FY20 dividend payout ratio expected to be in the range of 70-100% of NPAT.

In closing on behalf of the executive leadership team I want to acknowledge all the Pacific Smiles teams whether they are our field-based leaders, the dedicated folks out in centre operations or those equally dedicated people working in our support centre their efforts and energy is incredibly important and very much appreciated.

At the same time to the dentists who practice at Pacific Smiles I would also like to acknowledge their confidence in us. The trust and respect they place in us by choosing to operate their practice in our network is what drives the Pacific Smiles Group commitment to growth and the delivery of our True Purpose.

My final remarks are for our chair Mr Robert Cameron AO. Most sincerely from us all - thank you. For the last 17 years your calm wisdom has influenced the direction of this organisation from a fledgling idea that our founders had to a local professional powerhouse here in the Hunter and now on to an exciting developing ASX listed company. Your experience and sage advice are lessons for all of us and are appreciated, they will be long remembered and revered. Given your proximity to the office here in East Maitland and your deep history with the business we know you will continue to keep a watchful eye out for us.

I would now like to in invite Dr Alex Abrahams, founder and NED to say a few words.