



Pacific Smiles Group Limited (ASX: **PSQ**)
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ASX ANNOUNCEMENT

Pacific Smiles Group Limited (ASX:PSQ)

17 November 2022

SHAREHOLDER UPDATE

Pacific Smiles Group (ASX:PSQ) (the “**Company**” or “**Pacific Smiles**”) today released the following documents:

- **Performance and Strategy Update**; which restates Pacific Smiles’ long-term strategy and contains an update on both recent initiatives and business performance
- **Notice of Extraordinary General Meeting**; where the Board of Pacific Smiles strongly recommends you vote AGAINST all the proposed resolutions

PERFORMANCE AND STRATEGY UPDATE

The Board of Pacific Smiles continues to believe the Company’s long-term strategy will maximise Shareholder value.

Notwithstanding the obvious challenges that have been presented by COVID-19, the Company has been focused on strengthening the business to enable the long-term opportunity to be captured.

To improve Shareholder understanding of recent operating performance, the Company has today released a detailed update and has reiterated the long-term growth potential.

The detailed update demonstrates that:

- Mature centres continue to experience high levels of EBITDA profitability at the centre level and have retained their core patient bases despite the COVID-19 related lockdowns;
- Mid-age centres (FY 2015 to FY 2019) remain profitable, however, they have had their growth trajectories disrupted by COVID-19 related lockdowns. Notwithstanding this interference, more recent trading is demonstrating positive growth; and
- Centres opened since FY 2020 remain unprofitable on average due to the disruption of COVID-19 on their usual ramp profile. Despite this, they have experienced consistent positive trading growth in recent months as patients return to centres.

The Company has confirmed its guidance for FY 2023, with trading conditions recovering from previous COVID-19 related lockdowns. The Company also confirms that there is no change to the dividend policy as announced in the Company’s Annual Report.

There is significant embedded capacity to add more chairs into existing centres within the Pacific Smiles network. Therefore, as the Company has already informed the market, and Shareholders, we will be focused on managing the rate of growth of new centres relative to the accretive and low-cost growth that adding new chairs into existing centres generates.

We have separately presented 5-year growth targets of ~12% annual patient fee growth and margin improvement to 15% underlying EBITDA by the end of FY 2027 from the current invested footprint.¹ On top of this, we are targeting growth to 175 centres which will provide ~4% additional annual patient fee growth over the same period, and further Shareholder growth opportunity beyond FY 2027.

¹ For further detail, please refer to page 13 of the Company’s Performance and Strategic Update presentation.



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NOTICE OF EXTRAORDINARY GENERAL MEETING

The Company advises that an Extraordinary General Meeting (EGM) will be held at 10:00am (AEDT) on Monday, 19 December 2022 as a hybrid meeting at the offices of Automic, Level 5, 126 Phillip Street Sydney NSW 2000 and online.

As announced on 7 November 2022, the EGM has been requisitioned by Dr Alex J Abrahams (**Dr Abrahams**), who holds approximately 8.04% of the shares in Pacific Smiles, to consider a proposal to remove each of the seven (7) current Directors of the Company, including the CEO, to be replaced by four (4) new directors put forward by Dr Abrahams, including himself.

The Board does **NOT** believe that Dr Abrahams' plans are in the best interests of Shareholders.

1. Pacific Smiles' medium and long-term prospects are positive.

We are well positioned to benefit from a rebound in demand post COVID-19 due to the strategic investments the Company made during the pandemic in selective new centre expansion, retention of staff, IT systems and other infrastructure.

The Board has provided additional disclosure to improve understanding of the recent operating performance of the business and long-term earnings potential;

2. Dr Abrahams' purported transformation plan boasts the need for a "genuine culture review" despite Net Promoter Scores from dentist and employee surveys consistently trending up since 2017;
3. Many elements of Dr Abrahams' plan reflect Pacific Smiles' existing strategy. The Board considers that other elements of Dr Abrahams' plan are not appropriate and are lacking in important detail;
4. The Board and management team believe that a number of Dr Abrahams' statements are selective and therefore potentially misleading;
5. The Board considers that it is in Shareholders' interests to oppose Dr Abrahams' attempts to gain control of the Company without paying a control premium, and to maintain the independence of the Board and management team;
6. The Board believes that your current Directors and management team are more appropriately qualified for running Pacific Smiles than the nominees put forward by Dr Abrahams; and
7. The Board and management team are experienced in growing public businesses, are motivated to deliver the plan and to maximise Shareholder value.

Included in the Notice of EGM released today is a Letter from the Board to Shareholders and detailed responses to Dr Abrahams' proposal.

The EGM is an important decision at a critical time in the growth of the Company and we encourage Shareholders to review the Notice of EGM in detail and vote **AGAINST** all resolutions.



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CHAIRPERSON'S ADDRESS

Chairperson, Zita Peach said *"Today, the Company has released further disclosures which demonstrate the Board and management's ongoing commitment to building Shareholder value. Whilst COVID-19 has been a difficult period for many businesses, Pacific Smiles has used this time to invest strategically in highly attractive sites and develop a leading and scalable IT infrastructure platform, whilst focusing on retaining staff. We are pleased to see the continuing improvement in trading conditions, which are positive indicators of our near to medium-term performance. Pacific Smiles has laid the groundwork to generate significant Shareholder value, and we firmly believe the current Board and management are the best team to execute the strategy."*

The Board would like to thank Shareholders for your ongoing support.

Authorised for release by the Board.

For further information, please contact:

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FORWARD LOOKING STATEMENTS

This announcement contains forward-looking statements which are statements that may be identified by words such as 'may', 'could', 'believes', 'estimates', 'expect' and other similar words that involve risks and uncertainties. These forward-looking statements are based on an assessment of present economic and operating conditions and on a number of best-estimate assumptions regarding future events and actions that, as at the date of this announcement, are expected to take place.

Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties, assumptions and other important factors, many of which are beyond the control of the Company, the Directors and management of the Company. The Company cannot and does not give any assurance that the results, performance or achievements expressed or implied by the forward-looking statements contained in this announcement will actually occur and you are cautioned not to place undue reliance on these forward-looking statements.