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ASX ANNOUNCEMENT

Pacific Smiles Group Limited (ASX:PSQ)

12 December 2022

UPCOMING EXTRAORDINARY GENERAL MEETING

The Board of the Pacific Smiles Group (ASX:PSQ) (the “**Company**” or “**Pacific Smiles**”) reconfirms its recommendation that Shareholders vote **AGAINST** all the resolutions in the upcoming Extraordinary General Meeting (**EGM**) scheduled for Monday, 19 December 2022. **Proxies must be received by 10:00am AEDT on Saturday, 17 December 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 has outlined in the Notice of Meeting released on 17 November 2022 why it believes that Dr Abrahams’ plans are **not** in the best interests of Shareholders, and accordingly strongly opposes Dr Abrahams’ proposed resolutions.

The Directors continue to unanimously recommend that Shareholders

VOTE AGAINST

ALL resolutions put forward by Dr Abrahams

The following Letter to Shareholders provides an update in relation to the upcoming EGM and re-asserts the position of the Pacific Smiles’ Board.

The Board of Pacific Smiles notes that Dr Abrahams has been communicating with Shareholders directly with perspectives the Company strongly disagrees with, and as such, the Board believes it is appropriate to provide further context.

Furthermore, the Board affirms its continued confidence in the long-term growth strategy and provides additional information to support our view that the current Board and management team are best placed to execute on this strategy.

As disclosed in the Notice of Meeting, the Board believes it is important that Shareholders consider the following points in relation to the upcoming EGM vote:

- 1. Pacific Smiles’ medium and long-term prospects are positive;**
- 2. Dr Abrahams asserts 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.**

In addition to the detailed explanation supporting each of these points that has been provided in the Notice of Meeting (that we encourage all Shareholders to carefully review and consider), the Company makes the following additional observations.

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

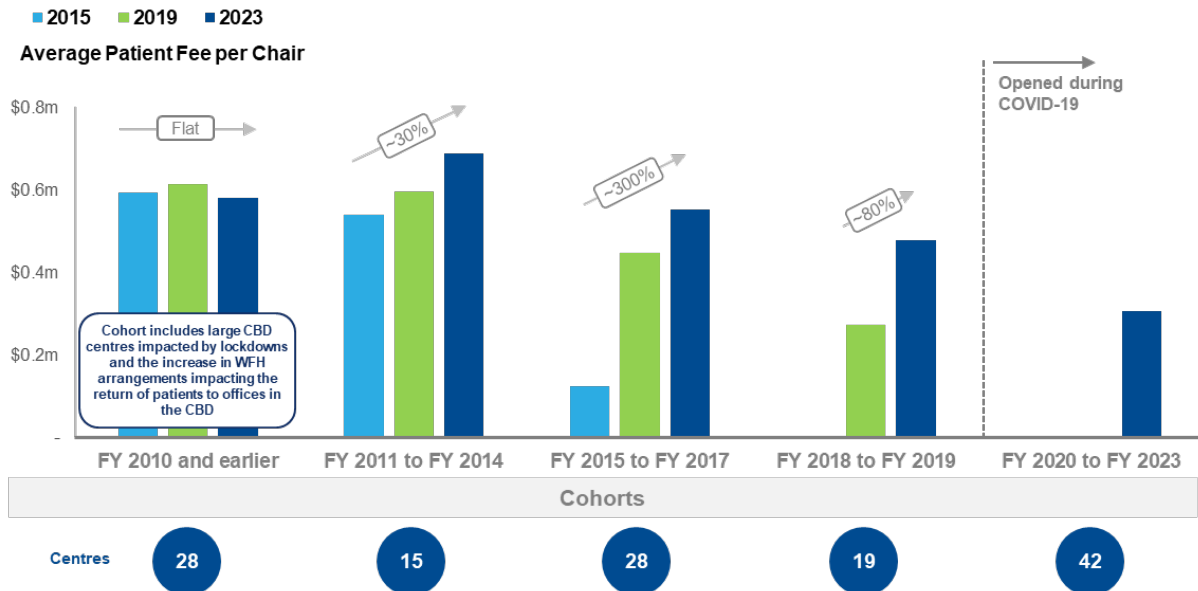
Pacific Smiles has continued to prudently and strategically invest during COVID-19, which the Directors believe positions the business well for medium and long-term success. This has included securing selective and highly sought-after retail sites that became available on attractive terms in light of the pandemic.

Dr Abrahams has selectively presented centre data on an aggregated basis to claim that the Company has “destroyed profitability” and is thereby ignoring the following facts:

- New centres have a ‘ramp-up’ profile and are initially loss-making. The Company has made detailed disclosure of this fact, including during Dr Abrahams’ tenure;
- COVID-19 has impacted the speed at which new centres ‘ramp-up’, but this does not impact their long-term potential; and
- COVID-19 lockdowns had a temporary impact on mature centre profitability, particularly considering that Pacific Smiles made a considered decision to remain open to support our dentists, employees and patients (an investment which we believe is in the Company’s long-term interests).

The cohort performance and underlying growth potential of the business is demonstrated below.

Existing cohorts have demonstrated strong patient fee per chair growth since 2015. While centres opened during COVID-19 are below the benchmark, these have been impacted by intermittent lockdowns and are continuing to ramp-up.



Note: FY 2023 based on full year guidance, 4 month actuals to October 2022

Dr Abrahams claims that Pacific Smiles undertook “unchecked” network expansion. The Company strongly disagrees with this claim and believes that the strategic investment that Pacific Smiles has made will yield significant medium and long-term value for Shareholders. The pandemic has presented a unique opportunity to scale-up, given landlords have been attracted to healthcare tenants in an environment where traditional rentals are under pressure.

These returns have also been buttressed through the Company’s careful management of capital costs associated with building new centres. We have consolidated materials costs and driven competitive tension with construction partners. As a result, the capital costs of establishing new centres have been driven down by approximately 10% since 2021. We believe this will lead to a higher return on invested capital for Shareholders.

As stated in our Performance and Strategy Update released on 17 November 2022, we are continuing to pursue our growth strategy, with targets over the next 5 years of:

- ~175 centres;
- Patient fees of ~\$475m+; and
- Underlying EBITDA margin (to patient fees) of ~13% (including some impact from ongoing investment in new centres, maintainable Underlying EBITDA margin target of 15%).

2. Dr Abrahams asserts the need for a “genuine culture review” despite Net Promoter Scores from dentist and employee surveys consistently trending up since 2017

The Board and management have made and continue to make decisions to improve dentist and employee satisfaction. These decisions have led to consistent improvement in Net Promoter Scores from these groups since 2017.

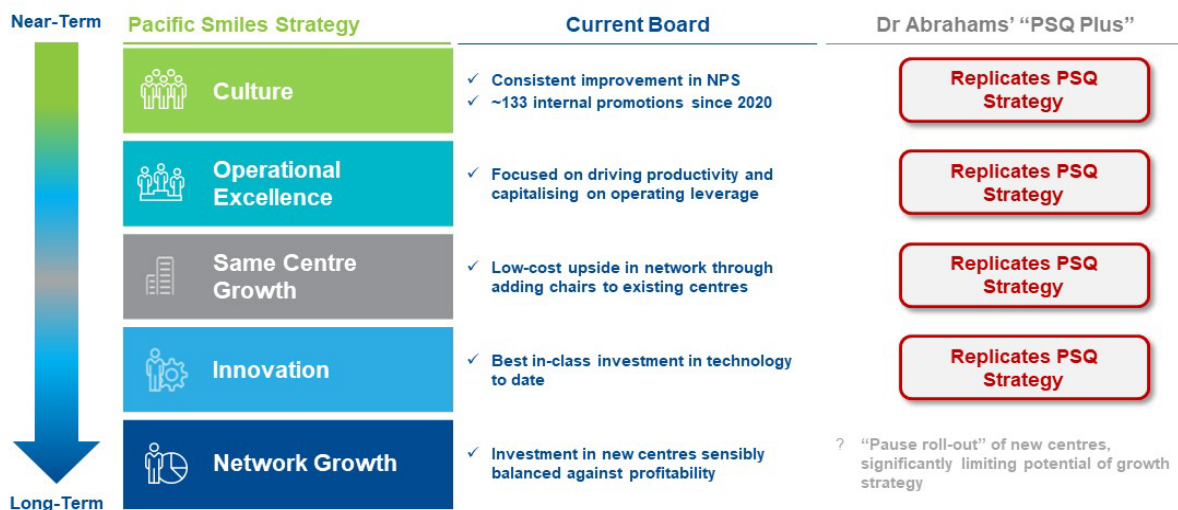
Further, under the current CEO’s tenure, the number of dentists at Pacific Smiles’ centres have increased from 376 in 2018, to over 900 dentists today, which is key validation of the strength of the Pacific Smiles culture.

While we do not wish to give credibility to any of Dr Abrahams’ various claims by responding to them individually, we highlight Dr Abrahams’ comment that he believes that the “NPS upward trend was from a significantly deficient start point”. The starting point for the information was May 2017, when Dr Abrahams was a steward of the Company. In making this comment, Dr Abrahams is implicitly acknowledging the culture of Pacific Smiles was unsatisfactory when he was last in a leadership position.

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

As stated in our Performance and Strategy Update released on 17 November 2022, the Board and management frequently review and seek to optimise all aspects of the Company’s operations, including dentist and employee engagement, centre and corporate productivity, same centre performance and growth, opportunities for innovation and further network expansion.

Dr Abrahams’ “PSQ Plus” strategy is a replication of many components of the Company’s existing strategy. We note that much of the Company’s existing strategy has now been made public. We believe that Dr Abrahams may be misleading Shareholders by claiming his plans represent a new approach.



There is significant embedded capacity to add more chairs into existing centres within the Pacific Smiles’ network. As a result, the Company can focus on managing the rate of growth of new centres relative to the accretive and low-cost growth from adding new chairs into existing centres. The rate of investment in new centres will be sensibly balanced against profitability expansion and prudent capital management.

Dr Abrahams is also yet to reveal the identity of his intended CEO, which raises significant concerns around his ability to execute on his strategy. Without a named CEO, Shareholders would be taking a significant risk supporting Dr Abrahams’ position. The Board notes that Pacific Smiles already has a high performing CEO and management team who have an established track record.

4. The Board and management team believe that a number of Dr Abrahams' statements are selective and therefore potentially misleading

The Board has noted several elements of Dr Abrahams' communication that may be misleading in both this letter and the Notice of Meeting previously circulated.

This includes misrepresenting the number of centres required to generate profitability, aggregating ramp-up and mature centre figures to support his own arguments, cherry-picking partial information and alleging a lack of prudence in the Board's execution of our investment and growth strategy.

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

There is a risk that Dr Abrahams acquires a significant degree of effective control of the Company by having his nominated directors appointed to the Board without paying any control premium. That means that Dr Abrahams would effectively gain control without paying Shareholders an appropriate premium reflecting the intrinsic value of the business.

The Board can understand why Dr Abrahams wishes to control Pacific Smiles, given the significant investment that has been made and the Company's medium to long-term growth potential.

Whilst Dr Abrahams has disclosed his shareholding as being 8.04%, the Board again notes that Dr Abrahams' relevant interest in Pacific Smiles is 12.13%, which includes his holding together with his associates.

Our current Board operates independently of any of the significant Shareholders of the Company, free to exercise its judgment in the best interests of all Shareholders.

The Board also believes that Dr Abrahams' "House of Brands" strategy is likely to lead to conflicts. The Board has previously had experience with Dr Abrahams encouraging the Company to engage with his personal ventures in property, PPE procurement and high-value dentistry.

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

The Board highlights again to Shareholders that of the four proposed directors, none have served as Chairperson of an ASX-listed company, and two (Ms Susan Massasso and Dr Navroop Singh) have never served on the board of an ASX-listed company.

The Board of Pacific Smiles believes that proper corporate governance is of utmost importance, and the lack of ASX-listed board experience, along with a broader deficiency of expertise and experience compared to the current Board, demonstrates that these individuals are not appropriately qualified for running Pacific Smiles.

7. The Board and management team are experienced in growing public businesses, are motivated to deliver the plan and to maximise Shareholder value

Our Directors have significant private and public company experience both in Australia and overseas, including roles with ASX top 20 companies and overseeing the growth of some of Australia's most exciting start-up businesses.

The Board believes that its membership should comprise Directors with an appropriate mix and diversity of skills, professional experience, tenure and personal background.



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The current Board and management have the necessary experience and are fully committed to delivering our growth plan.

On the other hand, we do not believe the Board members proposed by Dr Abrahams have the relevant experience or expertise to deliver on the opportunity in front of Pacific Smiles.

In addition to having a better qualified and more experienced Board today than the composition Dr Abrahams is proposing, the current Board will continue to refresh and augment its members in accordance with best practice in the year ahead, with a particular focus on diversity and tenure.

The Board would like to thank Shareholders for your ongoing support. We strongly believe you will optimise the value of your shareholding in Pacific Smiles by supporting your existing Board and management. We are open to discussing specific points in relation to the EGM directly with any Shareholders.

Chairperson, Zita Peach said “We remain highly confident in our growth strategy and the future of the Company. Pacific Smiles has strategically invested in highly attractive sites and developed a leading and scalable IT infrastructure platform, whilst also focusing on tangibly improving dentist and employee engagement. The groundwork has been laid to generate significant Shareholder value over the medium to long-term, and we firmly believe the current Board and management are the best team to execute the strategy.”

The Directors continue to unanimously recommend that Shareholders

VOTE AGAINST

ALL resolutions put forward by Dr Abrahams

Signed by the Directors of Pacific Smiles:



Ms Zita Peach



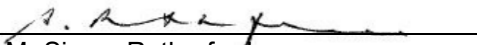
Mr Philip McKenzie



Mr Mark Bloom



Mr Hilton Brett



Mr Simon Rutherford



Dr Scott Kalniz



Mr Andrew Knott

For further information, please contact:

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HOW TO VOTE ONLINE:

Lodge the Proxy Form online at <https://investor.automic.com.au/#/loginsah> by following the instructions: Login to the Automic website using the holding details as shown on the Proxy Form. Click on 'Meetings' – 'Vote'.

If you wish to change your vote: Login to the Automic website using the holding details as shown on the Proxy Form. Click on 'Meetings' – 'Change Vote'.

To use the online lodgement facility, Shareholders will need their holder number (Securityholder Reference Number (SRN) or Holder Identification Number (HIN)) as shown on the front of the Proxy Form. For further information on the online proxy lodgement process please see the Online Proxy Lodgement Guide at <https://www.automicgroup.com.au/virtualagms/>.



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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.