

ASX ANNOUNCEMENT

22 February 2023

Pacific Smiles Group announces Half Year Results to 31 December 2022

Results summary:

- Patient fees \$133.3m, up 22.5% on prior corresponding period (H1 FY 2022), reflecting more normalised post-pandemic trading
- Group revenue \$81.6m, up 21.9%
- Underlying¹ EBITDA \$9.1m, up 84.4%
- 2 new centres opened during half-year, 129 Pacific Smiles centres at period end
- Underlying net profit after tax of \$0.5m, compared to net loss of (\$1.5m) at H1 FY 2022
- Improved FY 2023 YTD performance as patient attendance and practitioner rosters return to more normal levels, although trend of ramp-up slightly behind initial expectations. Ramp-up weighted towards H2 FY 2023
- Renewal of dividend – interim fully franked dividend declared of 0.35 cents per share

Dental service organisation Pacific Smiles Group (Pacific Smiles) (ASX: PSQ) today released its financial results for the 6 months ended 31 December 2022 reporting improvements in revenue and underlying EBITDA compared to the prior corresponding period, with a return towards more normalised trading conditions following COVID-19 related lockdowns and outbreaks which disrupted dental operations.

The company reported a 21.9% increase in group revenue to \$81.6m for the period from patient fees of \$133.3m, which were up 22.5% on the prior corresponding period. This improvement is attributed primarily to business volume and activity starting to return to pre-pandemic levels, with same-centre patient fees up 17.3% for the period.

Underlying EBITDA was up 84.4% to \$9.1m for the period, in line with higher revenue. EBITDA performance was impacted by a lag in maximising operating leverage in the business, with a slower realisation of labour efficiency in centres due to a more modest return to pre-pandemic patient attendances, changed practitioner operating patterns and cancellation rates.

¹ Underlying results excludes the impact of Australian accounting standard AASB 16 Leases and excludes the impacts of once-off severance payments, the executive LTI plan, finalisation of costs associated with the closure of our flood-impacted Lismore centre net of insurance recoveries, and legal and consulting costs incurred in respect of the December 2022 Extraordinary General Meeting and responding to the section 249D Notice advanced by Dr Alex Abrahams.

Reported underlying net profit after tax was \$0.5m for the period, compared to an underlying net loss of (\$1.5m) in the prior period. A fully franked interim dividend of 0.35c per share has been declared.

Two new Pacific Smiles centres and one new HBF-owned centre were opened, taking the total number of centres (excluding seven HBF centres) to 129 at period end. The company activated nine new chairs during the period, including three in existing centres taking the total to 539 as at period end.

In December, following the results of the Extraordinary General Meeting, Non-Executive Director, Andrew Knott, was removed from the Board.

Pacific Smiles Chief Executive Officer, Phil McKenzie, said: “We have seen a return to more normalised trading conditions as we emerge from the pandemic, with significant improvement in patient attendance patterns and practitioner availability.

“Other top line indicators of performance are also showing signs of improvement, including fees per appointment, with a higher mix of restorative procedures, reflecting the growing maturity and experience of our dentists and the needs of patients who have been undertaking less preventative care over the last few years.

“We are in a strong position to further capitalise on this momentum with a continued focus on further improving operating leverage to deliver margin growth,” he said.

Business performance

EBITDA performance has improved relative to FY 2022, with EBITDA margins significantly increasing in line with the recovery of the business post-pandemic. Cohort performance is improving overall, however the lingering COVID-19 effects continue to impact CBD-located centres primarily, where patient volumes are yet to return to pre-pandemic levels.

Centres opened in FY 2020, FY 2021 and FY 2022 have similarly had their ramp-profile delayed due to COVID-19, however H1 FY 2023 performances shows the centres returning to their expected growth trajectories. Start-up losses associated with new centres in FY 2023 are in line with expectations. Corporate costs are being vigilantly managed and were down 1.2% as a proportion of patient fees.

Net capital expenditure of \$7.0m for the year was deployed mainly to new centres (\$2.7m), the relocation and expansion of existing centres, including new dental chairs (\$1.6m), the completion of our investment in 3D scanners (\$1.0m), technology upgrades (\$0.7m) as well as the replacement of surgical equipment (\$1.0m).

As at 31 December 2022, borrowings remain stable at \$18.5m. The company had \$21.5m of headroom available in its debt facilities and net assets of \$75.5m excluding the impact of AASB 16 Leases.

By fiscal year end there were more than 925 dentists working from Pacific Smiles and HBF dental centres. Pacific Smiles has a dentist retention rate above 85%. Patient satisfaction also remains high, with the company reporting a patient net promoter score above 85. Staff and dentist retention improved slightly, attributed to management focus on retention and improvements in labour market conditions.

In a key sustainability initiative, the company has confirmed 25% renewable energy on all direct supply contracts. We are also committing to change from plastic to paper patient water cups by end of calendar 2023.

Trading Outlook and Guidance Update

On 17 August 2022, Pacific Smiles issued FY 2023 guidance for patient fees in the range of \$270m to \$285m and underlying EBITDA in the range of \$24m to \$27m.

Year to Date, Pacific Smiles has generated patient fees of \$169.7 million, which is an increase year on year of 21.0% on a total basis, and 15.8% on a same centre basis. This is a pleasing result.

Coming out of the pandemic, the guidance provided for FY 2023 assumed an improvement in operating KPIs and financial performance throughout the financial year as patient attendance and practitioner rosters returned to more normal levels. Whilst the shape of the ramp-up is as expected and weighted towards H2 FY 2023, it is taking slightly longer for patient and practitioner behaviours to return to normal relative to expectations. Momentum in early H2 has followed this trend and is continuing to improve.

Consequently, Pacific Smiles is updating its guidance for FY 2023. Our FY 2023 Patient Fees and Underlying EBITDA is now forecast to be at the bottom end of the previously advised range, being **Patient Fees of \$270 million and Underlying EBITDA of \$24 million for FY 2023**. This updated guidance includes **\$3 million of EBITDA drag from loss-making new centres in our FY20 to FY23 cohort**.

We would further draw investors' attention to the detailed disclosure we have provided in our FY 2023 Half Year Presentation in relation to our updated guidance.

Finally, in respect of our network growth, we will have opened 4 new centres by the end of FY 2023, bringing total Pacific Smiles centres to 131. In HBFD, we will be operating 8 centres for HBF by the end of FY 2023.

Mr. McKenzie said: "We are pleased by the momentum in trading following an extended period of disruption in prior years that impacted our ability to ramp-up our new centres.

"Every single cohort has demonstrated increased margin relative to the prior half year period, except for our FY 2010 and earlier cohorts. This provides us with a high level of conviction that the business is rebounding, our strategy is sound, and we are well positioned to deliver value for shareholders".

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Investor presentation

Pacific Smiles will host a conference call for investors to discuss the half-year results on Wednesday, 22 February 2023 at 11:00 AM Australia/Sydney (AEDT). Pre-Registration link here: <https://registrations.events/direct/OCP61007>

Complete half-year results materials will be released to the ASX and will be available on the company website via the following link: <http://investors.pacificsmilesgroup.com.au/Investors/>.

Authorised for release by the Board of Directors.

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