1. Company details

Name of entity:	Pacific Smiles Group Limited
ABN:	42 103 087 449
Reporting period:	For the half-year ended 31 December 2023
Previous period:	For the half-year ended 31 December 2022

2. Results for announcement to the market

	31 Dec 2023 $'000	31 Dec 2022 $'000	Change $'000	Change %
Statutory financial results				
Revenue from ordinary activities	90,002	81,605	8,397	10%
Statutory profit from ordinary activities after tax	4,407	222	4,185	1885%

	31 Dec 2023 $'000	31 Dec 2022 $'000	Change $'000	Change %
Underlying financial results				
Revenue from ordinary activities	90,002	81,605	8,397	10%
Underlying profit from ordinary activities after tax	4,383	536	3,847	718%

	31 Dec 2023 $'000	31 Dec 2022 $'000	Change $'000	Change %
Reconciliation of statutory to underlying profit				
Statutory profit from ordinary activities after tax	4,407	222	4,185	1885%
Severance expenses removed (Note 1)	210	204	6	3%
Executive Long Term Incentive plan expense/ (credit) (Note 2)	(1,833)	173	(2,006)	(1160%)
Impact from AASB 16 (Note 3)	368	152	216	142%
Workers compensation insurance premium adjustment for prior year (Note 4)	208	-	208	-
Impact of prior year payroll tax determination (Note 5)	1,013	-	1,013	-
Additional costs associated with the December Extraordinary General Meeting (Note 6)	-	523	(523)	(100%)
Net flood insurance recoveries (Note 7)	-	(603)	603	(100%)
Income tax effect of adjustments	10	(135)	145	(107%)
Underlying profit from ordinary activities after tax	4,383	536	3,847	718%

	31 Dec 2023 Cents	31 Dec 2022 Cents
Basic earnings per share	2.8	0.1
Diluted earnings per share	2.8	0.1

Subsequent to the end of the financial half-year, the Directors have recommended the payment of an interim dividend of 2.10 cents (2023: 0.35 cents) per ordinary share, fully franked. The aggregate amount of the proposed dividend expected to be paid out of profit reserves in April 2024, but not recognised as a liability as at the end of the financial year is $3,351,220 (2023: $558,537).

Comments
Note 1 – All termination and redundancy severance expenses have been removed as non-underlying cost as these are one-time expenses that do not reflect regular payroll expenses and including them distorts true changes in ongoing employee expenditure.

Note 2 – Similarly, the long-term incentive costs for the Executive team have been removed as these expenses are tied to specific performance criteria and do not reflect regular salary and benefits. Further, the adjustment outlined reflects that LTI Tranche 6, issued in 2019 and measured on 30 November 2023, did not vest during the financial year and so is released back to profit.

Note 3 - The Group has made several adjustments to reverse the impacts of the accounting standard AASB 16 and return the underlying EBITDA to include the cash payments for leases and sub-leases. These adjustments aim to present a clearer picture of the operational performance of the Group by removing the non-cash effects introduced by the AASB 16 Leases standard.

Note 4 – During the year, PSG received premium adjustment notices regarding workers compensation premiums for prior financial years. As these are considered a change in estimate, they have been paid and included in the statutory result, however, they have been excluded from the underlying result as they relate to prior years' expenditure.

Note 5 – The prior year payroll tax determination represents additional provisions made during the year for payroll tax related to the financial years 2019 to 2023. The Group has received Payroll Tax Notice of Reassessment Letters ("Reassessment") from the ACT Revenue Office for the financial years from 2019 to 2023, pertaining to the treatment of its Service and Facility Agreements with dentists for payroll tax purposes. As a result of these Reassessments, additional provisions have been made in HY24 to address the payroll tax shortfalls identified in the Reassessment. The Group has lodged objections with the ACT Revenue Office for the Reassessments relating to the financial years 2019 to 2023.

Note 6 – The additional costs associated with the December Extraordinary General Meeting refers to the legal and consulting costs that were borne as a consequence of the Section 249D notice that resulted in an Extraordinary General Meeting being called on 19 December 2022.

Note 7 – The PSG dental centre located in Lismore was damaged in the major flood event on 28 February 2022. This centre was not able to be repaired and restored and the decision was made to close the centre. The net flood insurance recoveries amount reflects the additional insurance monies received up until the claim was finalised in January 2023.

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3. Net tangible assets/ (liabilities)

	Reporting period Cents	Previous period Cents
Net tangible assets/ (liabilities) per ordinary security	(13.51)	(18.95)

Following the implementation of AASB 16 Leases, right of use assets are excluded from the calculation of net tangible assets per ordinary security, however, the corresponding lease liabilities are included in the calculation shown above. Should the lease liabilities be excluded from the calculation, net tangible assets per ordinary security would be $37.44 (2023: $35.01).

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4. Dividends

Current period
No interim dividend was declared during the half-year of FY24.

Subsequent to the end of the financial half-year, the Directors have recommended the payment of an interim dividend of 2.10 cents (2023: 0.35 cents) per ordinary share, fully franked. The aggregate amount of the proposed dividend expected to be paid out of profit reserves in April 2024, but not recognised as a liability as at the end of the financial year is $3,351,220 (2023: $558,537).

Previous period

	Amount per security Cents	Franked amount per security Cents
Final dividend for the year ended 30 June 2023 per ordinary share, fully franked, paid on 9 October 2023	2.270	2.270

5. Dividend reinvestment plan

The Company does not currently offer a dividend reinvestment plan.

6. Audit qualification or review

Details of audit/review dispute or qualification (if any):

The financial statements were subject to a review by the auditors and the review report is attached as part of the Interim Report.

7. Signed

Signed ______________________________ Date: 26 February 2024

Zita Peach
Chairperson

Pacific Smiles Group Limited

ABN 42 103 087 449

Interim Report - 31 December 2023

The Directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Group') consisting of Pacific Smiles Group Limited (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the half-year ended 31 December 2023.

Directors

The following persons were Directors of Pacific Smiles Group Limited during the whole of the financial half-year and up to the date of this report, unless otherwise stated:

Ms Zita Peach
Mr Andrew Vidler (appointed 15 January 2024)
Mr Mark Bloom
Dr Scott Kalniz
Ms Jodie Leonard
Mr Steven Rubic
Ms Giselle Collins (appointed 22 November 2023)
Mr Simon Rutherford (resigned 22 November 2023)
Mr Phil McKenzie (resigned 31 August 2023)

Principal activities

The Group principally operates dental centres at which independent dentists practice and provide clinical treatments and services to patients. Revenues and profits are primarily derived from fees charged to dentists for the provision of these fully serviced dental facilities.

Dividends

Subsequent to the end of the financial half-year, the Directors have recommended the payment of an interim dividend of $3,351,220 (2.10 cents per ordinary share) to be paid out of profit reserves at 31 December 2023.

Review of operations

Pacific Smiles continues to provide dentists with fully serviced and equipped facilities providing support staff, materials, marketing and administrative services, that delivers them the benefit of more flexibility and time to focus on their patients and offer exceptional patient care.

Business and financial performance was pleasing, punctuated by strong top line growth, with patient fees increasing 10.4%, combined with continued operating efficiencies resulting in improved profitability. The Group has continued to leverage the embedded capacity in the business, with utilisation of capacity improving again in the half.

Financial results for the first half of the 2024 financial year (HY24) are as follows (all comparisons are to first half financial year 2023 results):

- Underlying net profit after tax ("NPAT") of $4.4m increased from $0.5m, an increase of 718%.
- Underlying earnings before interest, tax, depreciation and amortisation ("EBITDA") (excluding AASB 16) increased from $9.1m to $13.9m an increase of 51.7%.
- Patient fees up 10.4% year on year to $147.1m.
- Group revenue up 10.3% year on year to $90.0m.
- HBFD delivered 28,953 appointments, an increase of 57.8% over the prior year.
- Net cash has increased from $9.6m to $13.3m since June 2023, with $5.0m in debt repaid during the half year.

The HY24 results reflect the Company's strategy to leverage investments in existing centres and to capitalise on new centre growth from FY21 and FY22 to drive volume growth, combined with improved operational and financial performance, resulting in continued deleveraging of the balance sheet.

The operational overview and insights discussions will focus on the underlying results for HY24 and the comparative period, excluding the impacts of AASB 16. While AASB 16 provides a more accurate representation of the Group's financial obligations and assets related to leases, removing the effects of the accounting standard provides a clearer picture of operational performance and helps with comparing the current financial results with historical data and similar companies. AASB 16 includes interest and depreciation expenses instead of lease expenses, thereby improving the earnings before interest and depreciation (EBITDA) result without a change to the operational performance of the Group. To exclude the impacts of AASB 16, the Group has replaced the depreciation and interest expenses associated with the lease assets and liabilities with the lease cash payments. This reduces the EBITDA result. Reporting on underlying EBITDA that removes these impacts focuses on the core performance of the Company.

Statutory results

Statutory net profit after tax for the half-year was $4.4m. This result has significantly increased from the HY23 statutory net profit after tax of $0.2m. The statutory results for the year were driven by increased patient volumes and improved operational efficiency in the face of rising costs.

Underlying Results

The reconciliation of statutory profit before tax to underlying EBITDA pre-AASB 16 is shown on the table below:

	31 Dec 2023 $'000	31 Dec 2022 $'000
Statutory profit before tax	5,608	278
Depreciation and amortisation expense	15,311	14,442
Net finance cost	1,978	2,146
Statutory EBITDA	22,897	16,866
Severance expenses removed (Note 1)	210	204
Executive Long Term Incentive plan expense/ (credit) (Note 2)	(1,833)	173
Rental expense adjustment to pre-AASB16 (Note 3)	(8,614)	(8,015)
Workers compensation insurance premium adjustment for prior year (Note 4)	208	-
Impact of prior year payroll tax determination (Note 5)	1,013	-
Additional costs associated with December Extraordinary General Meeting (Note 6)	-	523
Net flood insurance recoveries (Note 7)	-	(603)
Underlying EBITDA pre-AASB 16	13,881	9,148

Note 1 – All termination and redundancy severance expenses have been removed as non-underlying cost as these are one-time expenses that do not reflect regular payroll expenses and including them distorts true changes in ongoing employee expenditure.

Note 2 – Similarly, the long-term incentive costs for the Executive team have been removed as these expenses are tied to specific performance criteria and do not reflect regular salary and benefits. Further, the adjustment outlined reflects that LTI Tranche 6, issued in 2019 and measured on 30 November 2023, did not vest during the financial year and so is released back to profit.

Note 3 - The Group has made several adjustments to reverse the impacts of the accounting standard AASB 16 and return the underlying EBITDA to include the cash payments for leases and sub-leases. These adjustments aim to present a clearer picture of the operational performance of the Group by removing the non-cash effects introduced by the AASB 16 Leases standard.

Note 4 – During the year, PSG received premium adjustment notices regarding workers compensation premiums for prior financial years. As these are considered a change in estimate, they have been paid and included in the statutory result, however, they have been excluded from the underlying result as they relate to prior years' expenditure.

Note 5 – The prior year payroll tax determination represents additional provisions made during the year for payroll tax related to the financial years 2019 to 2023. The Group has received Payroll Tax Notice of Reassessment Letters ("Reassessment") from the ACT Revenue Office for the financial years from 2019 to 2023, pertaining to the treatment of its Service and Facility Agreements with dentists for payroll tax purposes. As a result of these Reassessments, additional provisions have been made in HY24 to address the payroll tax shortfalls identified in the Reassessment. The Group has lodged objections with the ACT Revenue Office for the Reassessments relating to the financial years 2019 to 2023.

Note 6 – The additional costs associated with the December Extraordinary General Meeting refers to the legal and consulting costs that were borne as a consequence of the Section 249D notice that resulted in an Extraordinary General Meeting being called on 19 December 2022.

Note 7 – The PSG dental centre located in Lismore was damaged in the major flood event on 28 February 2022. This centre was not able to be repaired and restored and the decision was made to close the centre. The net flood insurance recoveries amount reflects the additional insurance monies received up until the claim was finalised in January 2023.

Underlying NPAT increased 718% to $4.4m compared to a $0.5m in the prior year.

Depreciation and amortisation costs (excluding the impact of AASB 16) totalled $8.1m, an increase of $0.2m on the prior period.

Summary of key financial results and metrics are as follows:

Group Financial Performance $ millions	**Underlying[1] 31 Dec 2023**	**Underlying[1] 31 Dec 2022**	**Change %**
Revenue	90.0	81.6	10.3%
Gross profit[2]	85.3	77.9	9.5%
EBITDA	13.9	9.1	51.7%
EBIT	5.7	1.3	355.0%
Net profit after tax	4.4	0.5	718.0%
Operating metrics			
Number of Dental Centres[3]	128.0	129.0	(0.8%)
Commissioned Dental Chairs	542.0	539.0	0.6%
Patient Fees ($m)	147.1	133.3	10.4%
Same Centre Patient Fees growth (%)	9.6	17.3	
Financial metrics			
Underlying earnings per share (cents)	2.7	0.3	
EBITDA margin (%)	15.4	11.2	
EBITDA to Patient Fees margin (%)	9.4	6.9	
EBIT margin (%)	6.4	1.5	

[1] Underlying result includes the adjustments outlined in the table above.
[2] Gross profit is defined as revenue, plus other income less direct expenses as disclosed in the consolidated interim statement of profit and loss.
[3] The number of centres in HY24 has reduced with the merger of PSD Newcastle and nib Newcastle and the merger of PSD Woden and nib Woden.

Revenue

Group revenue is $90.0m, an increase of 10.3% over the previous financial half-year. Revenue consists mainly of service fees charged to the dentists who practice from our centres. The increase in revenue is underpinned by strategic efforts to absorb growing patient volume through improved utilisation within the business.

Patient fees increased 10.4% over the previous financial half-year to $147.1m, with same centre fees increasing 9.6%. New centres that opened in FY21 and FY23 that had been performing below the pre-Covid new centre run rate, delivered year-on-year improvements, and are returning towards ordinary course expectations.

Total practitioner hours increased 4.8% in HY24 to approximately 361,643 hours, and the total number of appointments attended increased 5.4% to 531,187.

Expenses

EBITDA margins, both at a centre level and group level improved materially in HY24, reflecting both revenue growth and focused expense management. The business has been able to maintain and improve the efficiency of the dental centre workforce. The staff to practitioner ratio (measured as the number of staff hours worked to dentist hours worked) spiked during this pandemic period due to the complexity of managing increased appointment cancellations and withdrawal of services by practitioners. This ratio reduced towards the end of the first half of FY23 and, pleasingly, has continued to improve into HY24.

In relation to other areas of expenditure, the following is noted:

Consumable supply expenses increased 4.1% to $6.9m from $6.7m in the prior period. However, in the face of cyclically high inflation, proactive efforts to manage inventory combined with strong partnerships with suppliers the group achieved a 0.3% reduction in total consumable expenses as a proportion of patient fees, decreasing the ratio from 5.0% to 4.7%.

Occupancy costs including lease payments increased 5.9% to $11.0m in HY24 versus $10.4m in the prior period. Approximately $0.3m of this increase is attributed to annual lease increases, while the new centres opened in FY23 contributed $0.3m to occupancy costs. With a significant uptick in CPI, 32 leases within the Group were impacted, resulting in a $0.2m increase linked to CPI adjustments. The remaining leases were linked to fixed annual increases.

There were no new centres opened during the HY24. Pleasingly, proactive management decisions, including merging the Newcastle NIB and PSD centre, as well as relocating the Woden centre to a more strategic location inside a shopping centre, is expected to contribute over $0.1m in cost savings during this financial year.

Repairs and maintenance expenditure on dental equipment in the network increased from $1.1m to $1.3m in HY24. The year-on-year increase is primarily attributed to unplanned maintenance, particularly in older cohort centres. In response, management is actively engaging with vendors to minimise unplanned maintenance. Additionally, Management is in the process of enhancing asset management processes and leveraging vendor partnerships to proactively schedule planned and routine maintenance. This strategic approach aims to facilitate pre-emptive decisions on equipment replacement, ensuring optimal performance and reliability, all while maintaining a cost-conscious focus.

Pacific Smiles' corporate overhead ratio fell to 6.7% in HY24 from 7.3% in the prior year. This was driven by two key factors, i) managing costs and headcount to align support office costs with the level of new centre growth, and ii) an increase in revenues.

Net interest costs decreased to $0.2m from $0.5m in the prior year. The reduction in interest expenses on the debt facility is attributed to the lower loan principal outstanding during the half-year period. In addition, the Group strategically managed its cash resources to capitalise on the prevailing high interest rate environment, leading to an increase in interest income received.

Payroll Tax

In November 2023, the Group has received a Payroll Tax Notice of Reassessment Letter ("Reassessment") from the ACT Revenue Office in respect of the four financial years from 2019 to 2022 and pertains to the treatment of its Service and Facility Agreements with dentists for payroll tax purposes. The Reassessment specifies that the Group is to remit a total of $0.89m payroll tax shortfalls. The payment to the respective authority has been made in December 2023.

Subsequent to the initial Reassessment, the Group lodged an objection with the ACT Revenue Office in January 2024, contesting the Reassessment for the four financial years from 2019 to 2022. The objection has been acknowledged by ACT Revenue and is expected to be responded to within six months.

In January 2024, the Group has received an additional payroll tax reassessment from ACT Revenue Office in respect of 2023 financial year. The Reassessment specifies that the Group is to remit a total of $0.27m in payroll tax shortfalls. A provision for this payment has been made. The Group lodged an objection with the ACT Revenue Office in February 2024, contesting the Reassessment for the 2023 financial year.

The Group has recognised additional provisions for these shortfall payments to the ACT Revenue Office and these have been reflected as non-underlying expenditures in the half-year.

Capital Expenditure

Capital expenditure for the half-year is lower at $1.8m compared to HY23 at $7.0m, reflecting the reduction in the rate of opening new centres. No new centres were opened in HY24. Investment in equipment continued with $1.1m spent on chairs, and various dental equipment, as well as $0.5m on technology upgrades.

Systems and Technology

Over the last two years, PSG strengthened the core technology foundations and expanded the catalogue of digital assets, products and services. During HY24, further modern and appropriate investments were made across the core Information Technology domains of cloud infrastructure, cyber security and data governance, delivering enhanced efficiency, security, and cost-effectiveness, while prioritising improvements in practitioner and patient experiences. Disaster recovery and business continuity capability have been a focus of the technology upgrades.

Investment in cyber security controls improved the baseline position as well as incident recovery capabilities. A strategic focus on the technology roadmap ensured further consolidation and simplification of technology, delivering greater efficiency and performance across the network.

Cash and Borrowings

Pacific Smiles continues its strong focus on cash management and fiscal discipline. Improved trading conditions in HY24 enabled Pacific Smiles to consolidate and strengthen its balance sheet. During the year, $5.0m debt was repaid leaving $4.0m of the $40.0m facility drawn, ending the year in a net cash position of $13.3m. Subsequent to the financial half-year, the Group has also reduced its facility limit to $20.0m, which will result in savings on fees charged against undrawn debt lines.

Centres

The Group continually evaluates the strategy to accelerate growth in light of the operating environment to ensure efficient use of capital and a balanced approach to growth.

Employees
Total underlying employee expenses for HY24 of $42.0m equates to 28.6% of patient fees, compared to $40.9m or 30.7% of patient fees in the prior period.

Despite the increase in Fair Work Australia (FWA) award rates, the proactive management of employee costs, facilitated by effective rostering in the centres, resulted in a lower ratio of employee expenses to patient fees. These strategic efforts in controlling costs and optimising workforce productivity have contributed to greater efficiency.

Employee engagement remains a key priority and was actively managed during the year.

Patients of Pacific Smiles' Dentists

In HY24, Pacific Smiles dentists delivered over 500,000 patient appointments with a patient net promoter score of 90. This is a strong result.

Appointment volume is more than 5.4% higher than the previous half-year, reflecting an increase in the maturity of our centres.

Practitioners

The number of practitioners engaging Pacific Smiles at the HY24 grew to 767 (1H23: 735) with a retention rate of approximately 95%.

The increase in practitioner numbers, plus more hours worked by existing practitioners, contributed to an increase of over 16,500 practitioner hours worked in HY24 compared to HY23.

Significant changes in the state of affairs
There were no significant changes in the state of affairs of the Group during the financial half-year.

Matters subsequent to the end of the financial half-year
Apart from the dividend declared as discussed above, no other matter or circumstance has arisen since 31 December 2023 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Rounding of amounts
The Company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

Auditor's independence declaration
A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this Directors' report.

This report is made in accordance with a resolution of Directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

On behalf of the Directors

Zita Peach
Chairperson

26 February 2024

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of Pacific Smiles Group Limited

I declare that, to the best of my knowledge and belief, in relation to the review of Pacific Smiles Group Limited for the half-year ended 31 December 2023 there have been:

i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and

ii. no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

Kevin Leighton

Partner

Newcastle

26 February 2024

	Note	31 Dec 2023 $'000	31 Dec 2022 $'000
Revenue	4	90,002	81,605
Other income	5	526	1,035
Expenses			
Employee expenses - direct		(482)	(391)
Other direct expenses		(5,259)	(3,374)
Consumable supplies expenses		(6,928)	(6,658)
Employee expenses		(40,603)	(41,238)
Occupancy expenses		(2,318)	(2,134)
Marketing expenses		(2,479)	(2,056)
Administration and other expenses		(9,562)	(9,923)
Depreciation and amortisation expense		(15,311)	(14,442)
Net finance costs	6	(1,978)	(2,146)
Profit before income tax expense		5,608	278
Income tax expense		(1,201)	(56)
Profit after income tax expense for the half-year		4,407	222
Other comprehensive income for the half-year, net of tax		-	-
Total comprehensive income for the half-year		4,407	222
		Cents	**Cents**
Basic earnings per share	12	2.8	0.1
Diluted earnings per share	12	2.8	0.1

The above consolidated interim statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

Pacific Smiles Group Limited
Consolidated interim balance sheet
As at 31 December 2023

	Note	31 Dec 2023 $'000	30 Jun 2023 $'000
Assets			
Current assets			
Cash and cash equivalents		17,315	18,573
Receivables		3,311	2,946
Inventories		6,187	6,200
Other		2,799	1,637
Total current assets		29,612	29,356
Non-current assets			
Receivables		411	516
Property, plant and equipment		56,123	62,032
Right-of-use assets		67,865	71,455
Intangibles		13,920	14,579
Deferred tax		12,140	10,170
Total non-current assets		150,459	158,752
Total assets		180,071	188,108
Liabilities			
Current liabilities			
Payables		18,720	19,276
Lease liabilities		14,350	13,750
Income tax		3,352	1,442
Provisions		4,754	4,773
Total current liabilities		41,176	39,241
Non-current liabilities			
Borrowings	7	4,000	9,000
Lease liabilities		66,969	70,246
Provisions		7,708	8,354
Total non-current liabilities		78,677	87,600
Total liabilities		119,853	126,841
Net assets		60,218	61,267
Equity			
Contributed equity	8	52,104	52,104
Reserves		10,036	15,492
Retained profits/ (accumulated losses)		(1,922)	(6,329)
Total equity		60,218	61,267

The above consolidated interim balance sheet should be read in conjunction with the accompanying notes

Pacific Smiles Group Limited
Consolidated interim statement of changes in equity
For the half-year ended 31 December 2023

	Contributed equity $'000	Reserves $'000	Retained profits/ (accumulated losses) $'000	Total equity $'000
Balance at 1 July 2022	51,917	15,346	(8,750)	58,513
Profit after income tax expense for the half-year	-	-	222	222
Other comprehensive income for the half-year, net of tax	-	-	-	-
Total comprehensive income for the half-year	-	-	222	222
Share-based payments	-	173	-	173
Balance at 31 December 2022	51,917	15,519	(8,528)	58,908

	Contributed equity $'000	Reserves $'000	Retained profits/ (accumulated losses) $'000	Total equity $'000
Balance at 1 July 2023	52,104	15,492	(6,329)	61,267
Profit after income tax expense for the half-year	-	-	4,407	4,407
Other comprehensive income for the half-year, net of tax	-	-	-	-
Total comprehensive income for the half-year	-	-	4,407	4,407
Share-based payments	-	(1,833)	-	(1,833)
Dividends paid or provided for (note 9)	-	(3,623)	-	(3,623)
Balance at 31 December 2023	52,104	10,036	(1,922)	60,218

The above consolidated interim statement of changes in equity should be read in conjunction with the accompanying notes

	Note	31 Dec 2023 $'000	31 Dec 2022 $'000
Cash flows from operating activities			
Receipts from customers		90,248	84,021
Payments to suppliers and employees		(71,192)	(67,087)
		19,056	16,934
Interest received		250	47
Interest paid		(1,664)	(1,628)
Finance cost paid		(392)	(565)
Income taxes paid		(1,261)	-
Net cash from operating activities		15,989	14,788
Cash flows from investing activities			
Payments for property, plant and equipment		(1,798)	(7,053)
Proceeds from disposal of property, plant and equipment		30	45
Lease payments received from finance leases		212	466
Net cash used in investing activities		(1,556)	(6,542)
Cash flows from financing activities			
Dividends paid	9	(3,623)	-
Repayment of borrowings		(5,000)	-
Payment of lease liabilities		(7,068)	(6,584)
Net cash used in financing activities		(15,691)	(6,584)
Net increase/ (decrease) in cash and cash equivalents		(1,258)	1,662
Cash and cash equivalents at the beginning of the financial half-year		18,573	11,805
Cash and cash equivalents at the end of the financial half-year		17,315	13,467

The above consolidated interim statement of cash flows should be read in conjunction with the accompanying notes

Note 1. Corporate information

The consolidated interim financial statements cover Pacific Smiles Group Limited as a consolidated entity consisting of Pacific Smiles Group Limited (the "Company") and the entities it controlled as at and for the six months ended 31 December 2023. The financial statements are presented in Australian dollars, which is Pacific Smiles Group Limited's functional and presentation currency.

Pacific Smiles Group Limited is a listed public company limited by shares, incorporated and domiciled in Australia. On 21 November 2014 Pacific Smiles Group Limited was listed on the ASX. Its registered office and principal place of business is:

6 Molly Morgan Drive, Greenhills, New South Wales

A description of the nature of the Group's operations and its principal activities are included in the Directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of Directors, on 26 February 2024.

Note 2. Material accounting policy information

Basis of preparation

The half-year consolidated financial statements is a condensed general purpose financial statements which has been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These condensed general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2023 and any public announcements made by the company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

Historical cost convention

The interim consolidated financial statements have been prepared on an accruals basis and are based on historical costs, modified where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities, and assets and liabilities held for sale.

Critical accounting estimates

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements include non-financial asset impairment testing.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except for the policies stated below.

New or amended Accounting Standards and Interpretations adopted

The consolidated entity has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

The standards and amendments relevant to the consolidated entity for the current year are:

- Disclosure of Accounting Policies and Definition of Accounting Estimates (Amendments to AASB 7, 101, 108 and AASB Practice Statement 2).
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to AASB 112).

The Group applied Disclosure of Accounting Policies and Definition of Accounting Estimates (Amendments to AASB 7, 101, 108 and AASB Practice Statement 2) for the first time in 2024. The amendments require entities to disclose their ‘material’ accounting policies, rather than their ‘significant’ accounting policies.

The Group has also adopted Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12) from 1 July 2023. The amendments narrow the scope of the initial recognition exemption to exclude transactions that give rise to equal and offsetting temporary differences.

Note 2. Material accounting policy information (continued)

The Group previously accounted for deferred tax on leases and decommissioning liabilities by applying the ‘integrally linked’ approach, resulting in a similar outcome as under the amendments, except that the deferred tax asset or liability was recognised on a net basis. Following the amendments, the Group has recognised a separate deferred tax asset in relation to its lease liabilities and a deferred tax liability in relation to its right-of-use assets. However, there was no impact on the statement of financial position because the balances qualify for offset under paragraph 74 of IAS 12. There was also no impact on the opening retained earnings as at 1 July 2022 as a result of the change.

For all other transactions, an entity applies the amendments to transactions that occur on or after the beginning of the earliest period presented.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the consolidated entity.

Changes to material accounting policy
There were no changes to the financial reporting requirements this year that affected the disclosures in the financial statements.

Note 3. Operating segments

The Group is organised into one operating segment, being predominantly activities within the dental sector throughout Eastern Australia. This operating segment is based on the internal reports that are reviewed and used by the consolidated entity’s Chief Executive Officer, who is identified as the chief operating decision maker, in assessing performance and in determining the allocation of resources. The consolidated entity’s operation inherently has one profile and performance assessment criterion. The financial results from this segment are consistent with the financial statements for the consolidated entity as a whole.

The chief operating decision maker uses the Group's underlying earnings before interest, tax, depreciation and amortisation (EBITDA), excluding the impact of AASB 16, as the main measure of performance. This measure is defined as the statutory EBITDA result, adjusted for the effects of the AASB 16 Leases standard and excluding the impact of expenses not related to ongoing employee expenses and non-recurring or extraordinary events that would distort insights into the operational efficiency and profitability of the consolidated entity.

The reconciliation of statutory profit before tax to underlying EBITDA pre-AASB 16 is shown on the table below.

	31 Dec 2023 $'000	31 Dec 2022 $'000
Statutory profit before tax	5,608	278
Depreciation and amortisation expense	15,311	14,442
Net finance cost	1,978	2,146
Statutory EBITDA	22,897	16,866
Severance expenses removed (Note 1)	210	204
Executive Long Term Incentive plan expense/ (credit) (Note 2)	(1,833)	173
Rental expense adjustment to pre-AASB16 (Note 3)	(8,614)	(8,015)
Workers compensation insurance premium adjustment for prior year (Note 4)	208	-
Impact of prior year payroll tax determination (Note 5)	1,013	-
Additional costs associated with December Extraordinary General Meeting (Note 6)	-	523
Net flood insurance recoveries (Note 7)	-	(603)
Underlying EBITDA pre-AASB 16	13,881	9,148

Note 1 – All termination and redundancy severance expenses have been removed as non-underlying cost as these are one-time expenses that do not reflect regular payroll expenses and including them distorts true changes in ongoing employee expenditure.

Note 2 – Similarly, the long-term incentive costs for the Executive team have been removed as these expenses are tied to specific performance criteria and do not reflect regular salary and benefits. Further, the adjustment outlined reflects that LTI

Note 3. Operating segments (continued)

Tranche 6, issued in 2019 and measured on 30 November 2023, did not vest during the financial year and so is released back to profit.

Note 3 - The Group has made several adjustments to reverse the impacts of the accounting standard AASB 16 and return the underlying EBITDA to include the cash payments for leases and sub-leases. These adjustments aim to present a clearer picture of the operational performance of the Group by removing the non-cash effects introduced by the AASB 16 Leases standard.

Note 4 – During the year, PSG received premium adjustment notices regarding workers compensation premiums for prior financial years. As these are considered a change in estimate, they have been paid and included in the statutory result, however, they have been excluded from the underlying result as they relate to prior years expenditure.

Note 5 – The prior year payroll tax determination represents additional provisions made during the year for payroll tax related to the financial years 2019 to 2023. The Group has received Payroll Tax Notice of Reassessment Letters ("Reassessment") from the ACT Revenue Office for the financial years from 2019 to 2023, pertaining to the treatment of its Service and Facility Agreements with dentists for payroll tax purposes. As a result of these Reassessments, additional provisions have been made in HY24 to address the payroll tax shortfalls identified in the Reassessment. The Group has lodged objections with the ACT Revenue Office for the Reassessments relating to the financial years 2019 to 2023.

Note 6 – The additional costs associated with the December Extraordinary General Meeting refers to the legal and consulting costs that were born as a consequence of the Section 249D notice that resulted in an Extraordinary General Meeting being called on 19 December 2022.

Note 7 – The PSG dental centre located in Lismore was damaged in a major flood event on 28 February 2022. This centre was not able to be repaired and restored and the decision was made to close the centre. The net flood insurance recoveries amount reflects the additional insurance monies received up to when the claim was finalised in January 2023.

Note 4. Revenue

	31 Dec 2023 $'000	31 Dec 2022 $'000
Revenue from contracts with customers		
Dental service fees	88,865	80,593
Dental product sales	227	308
	89,092	80,901
Other revenue		
Management fees	910	704
Revenue	90,002	81,605

Note 5. Other income

	31 Dec 2023 $'000	31 Dec 2022 $'000
Insurance recoveries	-	605
Rent	112	196
Sundry income	414	234
Other income	526	1,035

Note 6. Net finance costs

	31 Dec 2023 $'000	31 Dec 2022 $'000
Interest and finance charges on borrowings	159	565
Interest and finance charges on lease liabilities	1,836	1,628
Interest received	(17)	(47)
	1,978	2,146

Note 7. Non-current liabilities - borrowings

	31 Dec 2023 $'000	30 Jun 2023 $'000
Bank loans	4,000	9,000

Financing arrangements
Unrestricted access was available at the reporting date to the following lines of credit:

	31 Dec 2023 $'000	30 Jun 2023 $'000
Total facilities		
Bank overdraft	500	500
Bank loans	40,000	40,000
Bank guarantees	5,000	5,000
	45,500	45,500
Used at the reporting date		
Bank overdraft	-	-
Bank loans	4,000	9,000
Bank guarantees	3,702	3,841
	7,702	12,841
Unused at the reporting date		
Bank overdraft	500	500
Bank loans	36,000	31,000
Bank guarantees	1,298	1,159
	37,798	32,659

Covenants attached to bank borrowings were complied with during the half year.

The non-current borrowings are part of an ongoing loan facility which will expire on 30 September 2025.

Note 8. Equity - contributed equity

	31 Dec 2023 Shares	30 Jun 2023 Shares	31 Dec 2023 $'000	30 Jun 2023 $'000
Ordinary shares - fully paid	159,581,938	159,581,938	52,104	52,104

Note 9. Equity - dividends

Dividends declared after the end of the reporting period
Subsequent to the end of the financial half-year, the Directors have recommended the payment of an interim dividend of 2.1 cents (2023: 0.35 cents) per ordinary share, fully franked. The aggregate amount of the proposed dividend expected to be paid out of profit reserves in April 2024, but not recognised as a liability as at the end of the financial half-year, is as follows:

	31 Dec 2023 $'000	31 Dec 2022 $'000
Interim dividend declared but not recognised as a liability for the half-year ended	3,351	558

Previous period
Dividend paid or declared by the Company to members since the end of the previous financial year were:

Declared and paid during the half-year	Cents per share	Total amount $'000	Date of payment
Final 2023 ordinary	227.00	3,623	09/10/2023

Note 10. Related party transactions

Parent entity
Pacific Smiles Group Limited is the parent entity.

Transactions with related parties
Other than remuneration for their positions as Directors and executives of the consolidated entity, there were no other transactions entered between key management personnel or entities related to them and the consolidated entity during the half-year ended 31 December 2023.

Note 11. Events after the reporting period

Apart from the dividend declared as disclosed in note 9, no other matter or circumstance has arisen since 31 December 2023 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Note 12. Earnings per share

	31 Dec 2023 $'000	31 Dec 2022 $'000
Profit after income tax	4,407	222
	Cents	**Cents**
Basic earnings per share	2.8	0.1
Diluted earnings per share	2.8	0.1
	Number	**Number**
Weighted average number of ordinary shares used in calculating basic earnings per share	159,581,938	159,581,938
Weighted average number of ordinary shares used in calculating diluted earnings per share	159,581,938	159,581,938

Note 12. Earnings per share (continued)

Performance rights
Performance rights granted to employees under the consolidated entity's long term incentive plan are considered to be potential ordinary shares and are only included in the determination of diluted earnings per share to the extent to which they are dilutive. The performance rights currently on issue were not included in the calculation of diluted earnings per share at 31 December 2023 as they have yet to satisfy the conditions required to be converted into ordinary shares. In future periods, the performance rights may satisfy the conditions to convert into ordinary shares and could potentially dilute basic earnings per share.

Note 13. Share-based payments

Long term incentive plan
The consolidated entity has established a long-term incentive plan (LTI) to assist in the motivation, retention and reward of senior management. The LTI plan is designed to align the interests of senior management more closely with the interests of shareholders by providing an opportunity for senior management to receive an equity interest in consolidated entity through the granting of performance rights.

Performance rights have been issued to the selected senior managers, at the absolute discretion of the Board, pursuant to the LTI plan in financial years 2021, 2022 and 2024.

The performance rights will vest after a set term (the performance period) and are conditional on the achievement of relevant performance and service conditions.

For performance rights granted in financial years 2021 and 2022, the long-term financial performance is measured against the Total Shareholders Return (TSR) growth as the key performance indicator with the performance rights vesting determined by TSR growth for the four years from grant date. The details of the vesting conditions are as follows:

- Satisfaction of total shareholder return (TSR) growth performance hurdles for a four-year performance period. The number of performance rights vesting will be determined on a sliding scale from nil vesting for a TSR compound annual growth rate (CAGR) of 10% per annum or less and 100% vesting for a TSR CAGR of 25% per annum or more.
- The participant remaining employed by the Group over a four year or more period through to the vesting date, subject to certain good leaver exemptions.

For performance rights granted in financial year 2024, the number of performance rights that vest will depend on the extent to which the relevant Vesting Conditions are satisfied over the Performance Period. The details of the vesting conditions are as follows:

- Satisfaction of absolute cash earnings per-share (EPS) of FY26 vesting condition. The number of performance rights vesting will be determined on a sliding scale from nil vesting for an absolute EPS of less than $0.08 and 100% vesting for an absolute EPS of $0.11 or more in FY26.
- Satisfaction of average annual return on equity (ROE) during performance period. The number of performance rights vesting will be determined on a sliding scale from nil vesting for an average annual ROE of less than 18% and 100% vesting for an average annual ROE of 25% or more during the performance period.
- Satisfaction of total shareholder return (TSR) growth performance hurdles during the performance period. The number of performance rights vesting will be determined on a sliding scale from nil vesting for a TSR compound annual growth rate (CAGR) of 22% per annum or less and 100% vesting for a TSR CAGR of 30% per annum or more.
- The participant remaining employed by the Group over the period through to the vesting date, subject to certain good leaver exemptions.

Set out below are summaries of the current existing options granted under the plan:

Performance rights Grant date	Performance period start date	Performance period end date	Balance at the start of the half-year	Granted	Expired/ forfeited/ other	Balance at/ the end of the half-year
30/11/2019	01/12/2019	30/11/2023	2,391,000	-	(2,391,000)	-
30/11/2020	01/12/2020	30/11/2024	2,331,430	-	(926,957)	1,404,473
30/11/2021	01/12/2021	30/11/2025	1,981,482	-	(706,097)	1,275,385
07/12/2023	01/07/2023	30/06/2026	-	598,486	-	598,486

Note 14. Payroll Tax

A payroll tax provision has been made for the financial years 2019, 2020, 2021, and 2022 for independent dentists operating under a Service and Facilities Agreement with the Group. The provision covers potential payroll tax liability in Queensland and Victoria. The provision was estimated based on the methodology used by the NSW State Revenue Office in calculating the additional Payroll Tax liability imposed on the Group in New South Wales. The liability will be settled when the voluntary disclosures are completed and the payments are made to the respective regulatory authorities.

In November 2023, the Group has received a Payroll Tax Notice of Reassessment Letter ("Reassessment") from the ACT Revenue Office in respect of the four financial years from 2019 to 2022 and pertains to the treatment of its Service and Facility Agreements with dentists for payroll tax purposes. The Reassessment specifies that the Group is to remit a total of $884,003 in payroll tax shortfalls. The payment to the respective authority has been made in December.

Subsequent to the initial Reassessment, the Group lodged an objection with the ACT Revenue Office in January 2024, contesting the Reassessment for the four financial years from 2019 to 2022. The objection has been acknowledged by ACT Revenue and is expected to be responded within six months.

In January 2024, the Group has received an additional payroll tax reassessment from ACT Revenue Office in respect of 2023 financial year. The Reassessment specifies that the Group is to remit a total of $270,514.42 in payroll tax shortfalls. A provision for this payment has been made. The Group lodged an objection with the ACT Revenue Office in February 2024, contesting the Reassessment for the 2023 financial year.

In the Directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;

- the attached financial statements and notes give a true and fair view of the Group's financial position as at 31 December 2023 and of its performance for the financial half-year ended on that date; and

- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of Directors made pursuant to section 303(5)(a) of the Corporations Act 2001.

On behalf of the Directors

Zita Peach
Chairperson

26 February 2024

Independent Auditor's Review Report

To the shareholders of Pacific Smiles Group Limited

Report on the Condensed Consolidated Interim Financial Report

Conclusion

We have reviewed the accompanying ***Condensed Consolidated Interim Financial Report*** of Pacific Smiles Group Limited.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the condensed consolidated Interim Financial Report of Pacific Smiles Group Limited does not comply with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Group's*** financial position as at 31 December 2023 and of its performance for the ***Interim Period*** ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

The ***Condensed Consolidated Interim Financial Report*** comprises:

- Consolidated interim statement of financial position as at 31 December 2023
- Consolidated interim statement of profit or loss and other comprehensive income, consolidated interim statement of changes in equity and consolidated interim statement of cash flows for the half-year ended on that date
- Notes 1 to 14 comprising material accounting policy information and other explanatory information
- The Directors' Declaration.

The ***Group*** comprises Pacific Smiles Group Limited (the Company) and the entities it controlled at the half year's end or from time to time during the half-year.

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report.

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with these requirements.

Responsibilities of the Directors for the Condensed Consolidated Interim Financial Report

The Directors of the Group are responsible for:

- the preparation of the Condensed Consolidated Interim Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- such internal control as the Directors determine is necessary to enable the preparation of the Condensed Consolidated Interim Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Review of the Condensed Consolidated Interim Financial Report

Our responsibility is to express a conclusion on the Condensed Consolidated Interim Financial Report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the Condensed Consolidated Interim Financial Report does not comply with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2023 and its performance for the half-year ended on that date, and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

A review of a Condensed Consolidated Interim Period Financial Report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with *Australian Auditing Standards* and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

KPMG

KPMG

Kevin Leighton

Partner

Newcastle

26 February 2024

Directors	Ms Zita Peach Non-executive Chairperson Mr Andrew Vidler Managing Director and Chief Executive Officer Mr Mark Bloom Non-executive Director Dr Scott Kalniz Non-executive Director Ms Jodie Leonard Non-executive Director Mr Steven Rubic Non-executive Director Ms Giselle Collins Non-executive Director
Company secretary	Belinda Cleminson
Registered office	Level 1, 6 Molly Morgan Drive Greenhills NSW 2323 T: 02 4930 2000 F: 02 4930 2099 W: www.pacificsmiles.com.au
Share register	Automic Level 5, 126 Phillip Street Sydney NSW 2000 GPO Box 5193, Sydney NSW 2001 T: 1300 288 664 (within Australia) or +61 2 9698 5414 (outside Australia) E: hello@automicgroup.com.au
Auditor	KPMG Level 6, 18 Honeysuckle Drive Newcastle NSW 2300
Stock exchange listing	Pacific Smiles Group Limited shares are listed on the Australian Securities Exchange (ASX code: PSQ)