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21 February 2019

ASX ANNOUNCEMENT

Pacific Smiles Group Limited – Half Year Results to 31 December 2018

Pacific Smiles Group Limited (ASX: PSQ) ("Pacific Smiles" or "the Company") today announced its financial results for the half year ended 31 December 2018.

Key financial highlights

The key financial highlights from the results include: -

- Patient Fees generated by the dental practitioners working at dental centres owned and operated by Pacific Smiles were \$92.0m, up 14.0% on the prior period
- Revenue of \$59.8 million, up 18.5% on the prior period
- Same centre Patient Fees grew 9.0% for the period
- EBITDA (underlying) of \$11.2 million¹, up 2.5% on the prior period
- NPAT (underlying) of \$4.5 million¹, down 8.3% on the prior period
- 3 new Pacific Smiles Dental centres opened in H1 2019, bringing the total to 82 centres as at 31 December 2018
- Interim dividend of 2.3 cps (fully franked) declared (H1 2018: 2.3 cps)

Business Initiatives

In line with our True Purpose, to improve the oral health of ALL Australians to world's best, Pacific Smiles continues the roll out of quality dental centres in convenient locations for patients. In H1 2019 3 new dental centres were opened in Chirnside Park, Glen Iris and Keysborough in Victoria. All are in shopping centres and results have been pleasing to date. There is a healthy pipeline of development opportunities for the second half with at least 7 new Pacific Smiles Centres due to open in H2 2019, 2 of which are due to open in the next month. The company remains on track to deliver 10 in FY 2019.

In H1 2019 Pacific Smiles welcomed a new CEO, Phil McKenzie. Phil was previously Chief Executive Officer of Audiology Management Group, a leading audiology services business with a network of more than 200 clinic locations in the USA. He brings to the role a strong background in organic rollout, allied healthcare, and consumer focus both in Australia and internationally.

¹ Underlying results exclude \$0.5m for the impacts of once-off severance expenses

'I am pleased with the continued positive growth trajectory of Pacific Smiles, as we continue to gain share in a market that remains competitive and value conscious. Our growth strategy remains underpinned by dedicated and motivated practitioners operating alongside our professional support staff.'

During the half a number of business initiatives were undertaken to support the ongoing growth strategy and improve our competitive advantage in the market: -

- A total of 7 additional chairs commissioned in existing centres to meet patient demand
- Upgrade of existing North Parramatta nib centre and relocation of the Drysdale centre
- Record intake for the dentist graduate program, achievable given the recent remodel and upgrade of the graduate dentist mentoring and training program
- Implementation of a digital scanner pilot
- Increased focus on developing our employees through expanded high achiever development programs, boosted traineeship program and field-based trainers

Business Performance

Revenue for the period was \$59.8 million, up 18.5% on the prior period.

Total Patient Fees for the period were \$92.0 million, representing growth of 14.0% on prior period.

Same Centre Patient Fees growth of 9.0% for the period was higher than the 3.3% reported in H1 2018. Same Centre growth was driven by 16% growth in younger centres¹ as new centres ramp up over time. Our mature centres grew at 3% compared to 1H 2018.

EBITDA (underlying) increased by 2.5% to \$11.2 million (H1 2018: \$10.9 million) during the half year compared with the prior comparative period. EBITDA to Patient Fees margin decreased from 13.5% to 12.2%. The EBITDA result was impacted by the following adverse items: -

- Impact of lower than expected fees per appointment in the half of \$0.3 million
- Impact of higher than expected telecommunications infrastructure and connectivity expenditure of \$0.3 million

EBITDA at the centre level, excluding the higher than expected IT and telco costs, grew by approximately 10% on H1 2018.

Corporate costs represented 6.3% of patient fees in H1 2019 as compared to 6.1% in H1 2018. The increase in corporate costs reflects investment in field support, learning and development, strategic projects, and marketing to support our growth.

New centres opened in FY 2018 are performing in line with other cohorts and are approaching breakeven EBITDA in aggregate.

Higher depreciation costs associated with the rollout strategy of new centres, resulted in the underlying NPAT decreasing by 8.3% to \$4.5m compared to \$4.9 million for the prior year.

Pacific Smiles continues to report very high levels of patient satisfaction, with Net Promoter Score results above 80, a pleasing result and high by most benchmarks.

¹ Centres opened since 1 July 2010 that are same centres

Capital expenditure for H1 2019 was \$7.1 million (H1 2018: \$6.4 million), consisting predominantly of new centres, the upgrade of the Drysdale and nib North Parramatta centres and the bulk purchase of dental chairs.

Dividend

The Board has declared an interim fully franked dividend of 2.3 cents per share to be paid on 5 April 2019. The record date for this dividend is 19 March 2019.

Trading Update and Outlook

FY 2019 guidance has been revised assuming no improvement in the fees per appointment trend from H1 2019: -

- EBITDA growth for FY 2019 of approximately 5% on FY 2018 (previously at least 10%)
- Patient Fee growth of 12 – 15% on FY 2018 (previously 10-15%)

The following elements of the outlook remain unchanged: -

- Same Centre Patient Fee growth of > 5% for FY 2019 (tracking at 8.4% YTD up until 16 February 2019)
- Opening at least 10 new dental centres in FY 2019, with 3 new centres opened in H1 2019 and 7 new sites already committed for H2 2019
- Dividend pay-out ratio within the policy range of 70-100% of NPAT for FY 2019

Investor conference call

Pacific Smiles will host a conference call for investors to discuss the results.

Date: 21 February 2019

Time: 11.00am AEDT

Dial-in number: +61 2 8038 5221

Password: 1376875

Further information and enquiries

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/> or for further information, please contact:

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