

1300 SMILES Ltd
Annual General Meeting 25 November 2010
Managing Director's Address

It gives me great pleasure to welcome you to the sixth Annual General Meeting of 1300 SMILES Limited.

Each year I have just three opportunities to speak directly to our shareholders: this address to the Annual General Meeting and my Letter to Shareholders in each annual and half-yearly report. I take these opportunities seriously. Today I will do my best, once again, to give you a thorough understanding of how our company really works.

There's so much to tell you about that I can't possibly fit it all in to this morning's address. So I've organised my presentation around all of the ways that 1300SMILES Ltd creates value--for its dentists, for its patients, and for its shareholders.

Delivering value to our dentists

The first point I would make is that our dentists are here because they want to be. Generally they sign rolling contracts under which they promise to work from one of our facilities for a period of time and we, in return, promise to have space and services for them in the agreed facility. Dentists benefit from this flexible relationship with our company in different ways.

Some dentists simply expect to base their practices within a 1300SMILES facility more or less permanently. Our dentists with the longest tenure with our company have now been here for nine years. Some dentists practice within 1300SMILES as a bridge--often a long bridge indeed--to retirement. It is quite common for senior dentists to come to us expecting to work for another few years, only to find that the services we offer make it easy and agreeable to stay for far longer.

Often these senior dentists come to us believing that they're tired of dentistry, when in fact what they're tired of is all the hassle of running a solo practice or small partnership. When they discover that basing their practices at 1300SMILES means they just show up and do what they're good at and what they love--dentistry--they get a new burst of energy and a new enthusiasm for the profession.

We also give younger dentists a clear, low-hassle career path. Increasingly, younger dentists choose not to borrow a million dollars or more to buy or set up a small practice and then face the prospect of working there more or less forever. Within 1300SMILES, young dentists get the opportunity to work with senior dentists who are eager to pass on their skills and experience to someone keen to learn and grow.

I personally still practice part time, under a service agreement identical to that signed by other dentists. I think the fact that I have the same experience of practising within a 1300SMILES facility as all other dentists helps to keep me aware of the key issues that matter to our professionals.

Finally, of course, some dentists are eager to make a lot of money. 1300SMILES removes all of the obstacles. We provide professional branding, marketing and promotion, along with efficient appointment scheduling and a steady flow of new patients. Individual dentists focus on what they choose, be it high-end, complex treatments, or the more usual, higher volume general dentistry.

Our dentists choose how much money they will make. We assist our dentists to run their practices efficiently and profitably at whatever scale they choose to operate. We certainly do nothing whatever to impede the growth of any dentist's business, and some of them have built large practices indeed. Dentists within 1300SMILES remain free to build the sorts of practices with which they are comfortable. All we insist on is that each and every patient receive top-quality treatment in pleasant surroundings.

Delivering value to our patients

Fifteen of our twenty one established practices are located in regional centres in Queensland. These centres have historically been under-served, as many dentists have chosen to cluster in the competitive capital city markets. We believe that 1300SMILES delivers a great service to its patients by focussing on regional centres.

In Mackay, for example, the waiting time for a dental appointment was around six months before we opened our facility there. We initially built a four-chair facility, but within a year we started the project of doubling its size to eight chairs. Since then we've expanded to the maximum capacity of the present premises with eleven fully equipped dental surgeries. When we first arrived in Mackay I don't believe there were more than eleven dental practices in total, so you can see that we've greatly improved access to dental care in that city. The waiting time for an appointment is greatly reduced, and we make a policy of accommodating emergencies on the same day wherever and however possible.

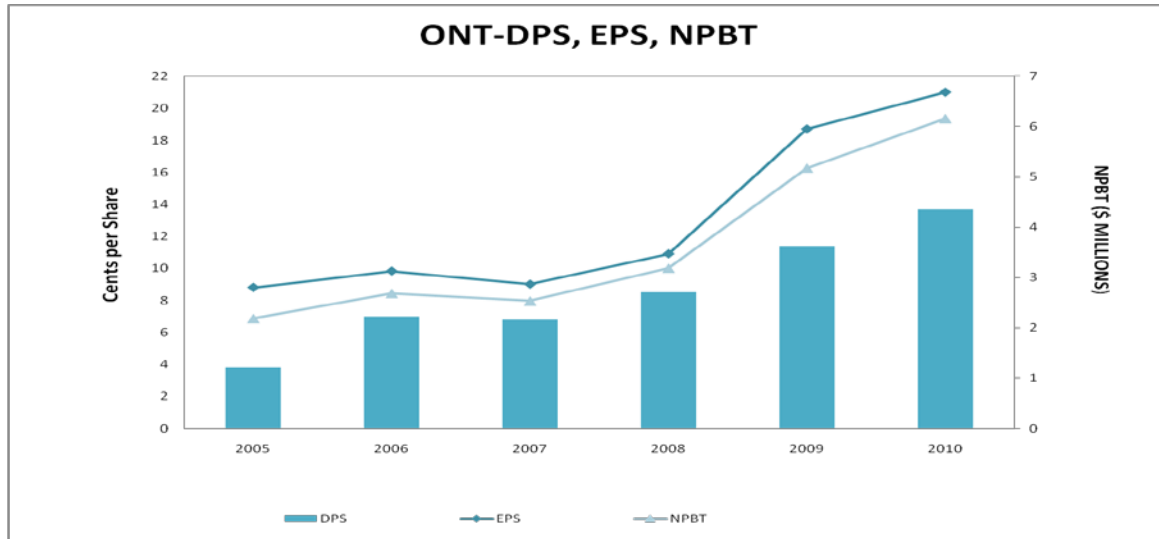
The Mackay experience has been repeated up and down the coast of Queensland. In Bundaberg we acquired a big established practice in 2008. This practice was operating at close to 100% capacity and has continued to do so. We have recently opened a large new facility in that city, to take the overflow from the first centre and to allow the business to grow beyond the limits of the original facility.

Patients benefit when we do what we do for the benefit of our business: we seek under-served markets and deliver dental services. We have learned to always build or renovate our facilities to have excess capacity, because it's cheap to build in some extra space at the outset, and the extra capacity always seems to be put to use faster than we dare to predict ahead of time.

Delivering value to our shareholders

Our full-year dividend for 2010 was 13.7c per share, fully franked. That means that the dividend has delivered compound annual growth of just under 30% over the five years since 2005's dividend of 3.8c.

Long term shareholders--which I am pleased to note includes many of you here today--have heard me mention before that many aspects of company accounting are subject to debate. Even such important concepts as profit can be viewed more as opinion than fact. But cash dividends are hard facts. The twelve cash dividends we've paid since 2005 tell a factual story about our company. 1300SMILES is utterly committed to delivering returns to shareholders, both as cash dividends and as added value.



To deliver growing dividends, we have to deliver growth in Earnings Per Share (EPS). This requires us to increase our total profit, of course, but it also requires us to keep the number of shares issued as small as possible.

During 2010 we did issue a total of 779,100 new shares, increasing the total number of issued shares by 3.8%. Despite the small dilutive effect of this issue, we still delivered EPS growth of 12.3%.

Finally, I would note as I have before that my salary and other compensation add up to far less than I receive from the company in dividends. I don't work here because I get paid to fulfil the role of managing director. I work here to deliver growing dividends, some of which come to me. My incentives as managing director are more closely aligned with those of all 1300SMILES shareholders than they are in any other company I know.

Just plain value

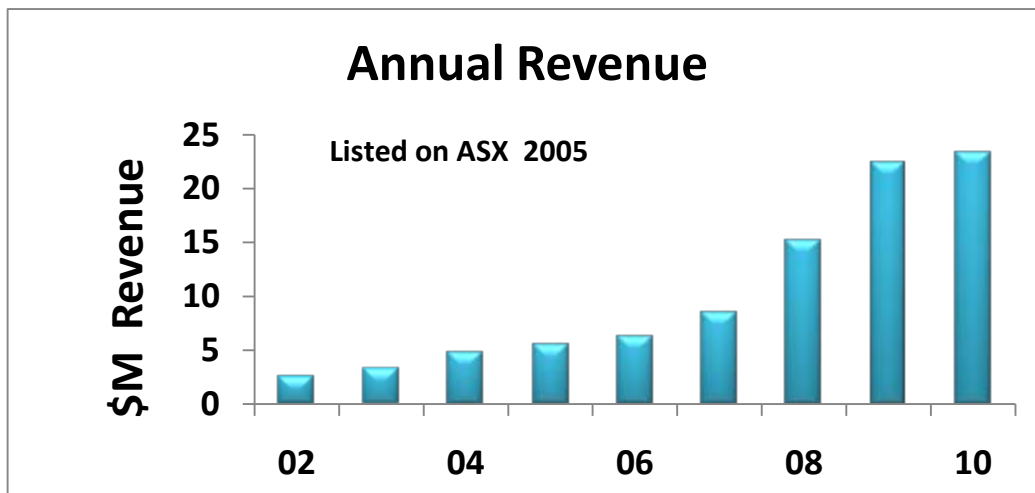
1300SMILES is proud of its association with the Youth With A Mission (YWAM) medical ship which is based here in Townsville. I personally spent a week last month up in Papua New Guinea with the ship, during which time I spent three very long days practising from the on-board dental facility. During that time I performed more than 250 procedures, most of them urgent. The gratitude of the patients up there is just overwhelming. Papua New Guinea has a population of six million but only thirty two practicing dentists, so the need for services is huge. I hope that many of the other dentists in 1300SMILES will follow my example and donate a week or two of their time now and again.

We're quite proud of our association with the YWAM medical ship. The short video we will show here this morning can also be accessed at the YWAM ships website. There's also a link to the YWAM site from the 1300SMILES web site at www.1300smiles.com.au

Growth

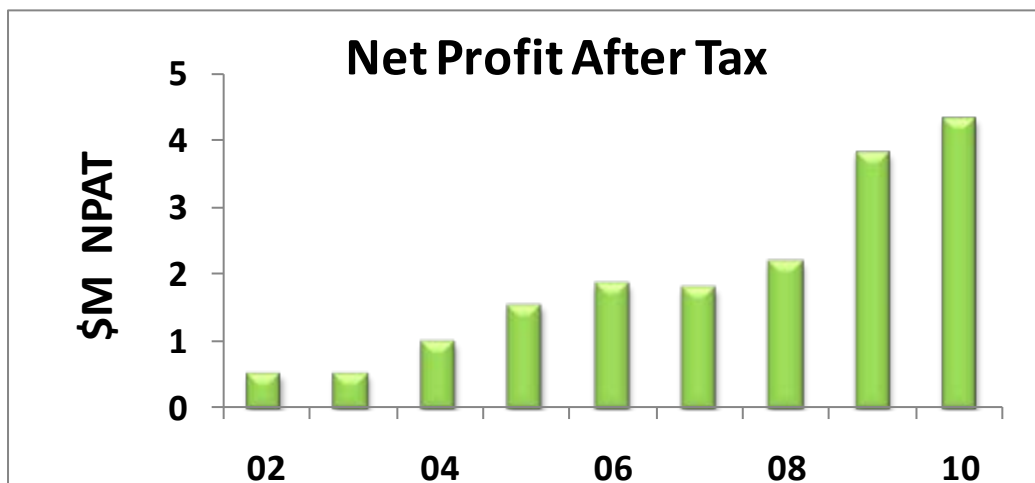
We spent much of the 2010 year in the shadow of 2009. In the 2009 year, 1300SMILES Ltd stepped up to an entirely new plane of operation, with profit that year up 74% as compared to the already-good profit in 2008. We started the 2010 year knowing that we would have to show our investors and the market that we could operate successfully at this larger scale.

The results for the 2010 year show that our company has met this challenge. Our management and systems successfully absorbed the greater scale of business, and the results on all key measures were strongly positive.



As compared to the extraordinary 2009 year, our 2010 results showed an increase of 19% in Net Profit Before Tax and 14% in Net Profit After Tax, owing to year-on-year differences in the effective tax rate.

Our Earnings Before Interest, Tax, Depreciation, and Amortisation (EBITDA) was up 14.8%. I mention EBITDA because many analysts find it a useful tool for comparing businesses which operate in different industries.



Of most immediate interest to many shareholders, our Earnings Per Share grew by 12.3% to 21c per share, and our fully-franked annual dividend increased by 20% to 13.7c for the full year. I invite you to savour these results, and to consider them in light of the disruptions and disappointments many other companies have suffered over the past few years.

Since the end of the financial year we have acquired the Bray Park Dental Practice, located in the Kensington Village Shopping Centre, between Bray Park and Strathpine, in northern suburban Brisbane. This addition means that most of the population of suburban Brisbane is now within easy reach of a 1300SMILES facility. The Bray Park practice has made an immediate contribution to our profit and a positive addition to Earnings Per Share.

Since the end of the financial year we have also completed a number of projects begun during the 2010 year. Our first facility in Bundaberg has been operating at more or less full capacity since we acquired it in 2008. To meet the constant demand for services there, we have opened a second facility in that city to take the overflow and build its own business.

We have also opened a green field site at the Chatswood Shopping Centre in Springwood, which is in southeastern suburban Brisbane. The Chatswood facility incorporates a small practice we acquired nearby for relocation into this large, modern facility in a new medical precinct. Both of these new facilities have extra capacity and give us room to build solid local businesses.

We are currently expanding our facilities in Tweed Heads, Gladstone and Cairns. These projects require relatively little capital and create a smooth path to greater revenue and profit in each of those centres. At the same time, of course, we continue to expand organically and by acquisition, with several candidate practices under consideration at present.

Stability and Solidity

I do everything I can to make sure that 1300SMILES Ltd is stable and solid. Our company is built on a stable base: the demand for quality dental services in Australia. This demand is relatively unaffected by economic conditions. This has been amply demonstrated by the fact that 1300SMILES Ltd navigated the hazards of the global financial crisis with no apparent harm.

Our revenue and profit grew in 2008 despite the fact that the global financial crisis began in that year. Our revenue and profit grew magnificently in the 2009 year, which was a very difficult time for many other companies. From the greatly elevated base we established in 2009, we have once again delivered growth in revenue, profit and dividends in 2010.

In addition to building a stable business, we've also built a solid business. Where we have acquired dental practices, we have done so on sensible terms, and we have walked away from many potential acquisitions that were just too expensive. We know in many cases that these practices were bought by others.

We've made our business solid by not overpaying for practices. We make it more solid still by not over-leveraging our business. As you'll know from the annual report, we finished the 2010 year with net debt of just \$2.45 million, down 38% from the previous year. We're not afraid of debt, but we use it only to make acquisitions which we know will pay themselves off. We're happy to borrow as much as it takes to acquire practices which increase our profitability without diminishing our stability and solidity, but we make sure that every business we acquire throws off enough cash to pay down any such borrowings rapidly.

We make our business even more solid by constantly filling in the gaps. We design all of our new and refurbished facilities with excess capacity. We then set out to absorb additional dentists into these established sites. This organic growth requires little or no capital outlay for each extra dentist who joins us.

Looking Ahead

In some ways, the year ahead will be similar to the year just finished: we will constantly seek ways to improve our established business, and for ways to apply our management skills in new ways. We will continue to work hard, deliver the best profits we can, pay tax, and pay generous dividends.

From that base of solid familiarity, however, we are working on a number of new initiatives which I look forward to announcing as they mature. We're proud that we've established a whole new way of organising dentistry in Australia, but we're not finished, and I look forward to bringing you lots of news over the coming months and years.

We have never made forecasts about future profitability and we will not do so now. At this sixth Annual General Meeting I think we are entitled to say that our record speaks for itself. Our record since listing in March 2005 is one of constant, sensible, and sustainable growth. Our business model performed well right through the tough economy of 2008 and 2009, and we're confident it will perform well in happier economic times. I can assure you that the management and staff of 1300SMILES join me in working to maintain and improve on that record.

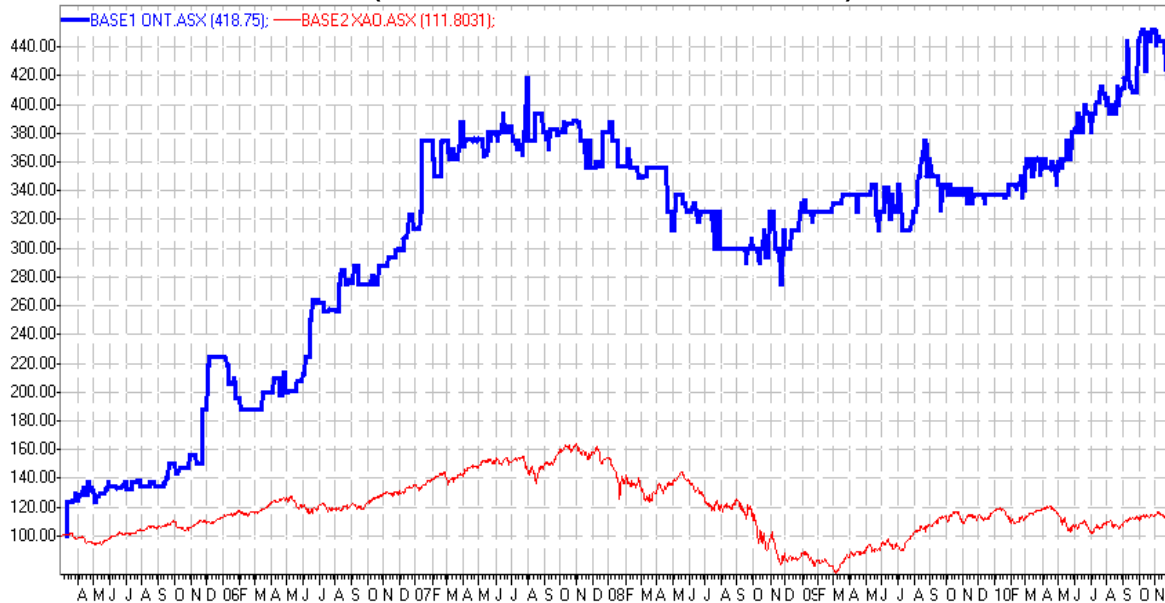
1300SMILES and the Share Market

Before I can ever mention the market price of our shares, I must remind you that we do not control the share price and we do not make it an objective to influence the share price. All we can do is run the company as best we can and accept that the share price will take care of itself.

That said, the market performance of our shares is gratifying. Our share price, which closed at \$3.40 yesterday, is over four times the issue price of 80c. Once again I invite shareholders to tell me about any other sensible, profitable, dividend paying company whose share price today is four times its 2005 price.

ONT v. All Ordinaries index

1 March 2005 to 24 November 2010
(Common base = 100 at 1 March 2005)



A welcome effect of the strong share price is that the market capitalisation of 1300SMILES Ltd has increased to over \$70 million, up from around \$15 million upon listing. The growth in market capitalisation has been accompanied by an increase in the total number of shareholders. As the market capitalisation increases, 1300SMILES becomes visible to a broader range of possible investors, which can only be good for all shareholders.

I take our share price to be a reassuring endorsement of our business from you, our shareholders, and from the market at large. That said, I prefer to think that 1300SMILES Ltd is a company which shareholders, together with myself, choose to own because of our track record of returns and results. We focus on preserving, protecting, and improving our record rather than paying much attention to the share price, and I hope that you take the same approach. Our relentless focus on our core business over the past six years has delivered gratifying returns to shareholders. I welcome you all to stay with us into the future, as it looks promising indeed.

Thanks

I thank you for your support, and I thank our many employees and associated dentists for their hard work in delivering these results to you.

Daryl Holmes
Managing Director