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1300SMILES Ltd Annual General Meeting 24 November 2011 Managing Director's Address

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

In seeking to summarise the 2011 financial year and the months since then, I realised the story of 1300SMILES in 2011 is all about balance. I think our company has the balance about right, and I hope that my address to you today helps you to understand our business and the challenges we face somewhat better.

First of all, I am extremely pleased with our results for the 2011 year. Once again, and for the fourth year in a row, 1300SMILES delivered record results on all of the measures which really matter: Revenue, Net Profit After Tax, Earnings Per Share, and Dividends Per Share.

The most important aspect of these fine results is the fact that they result entirely from sticking to our knitting and doing what we do best. The growth delivered in 2011 came from a sensible, restrained acquisition strategy on a broad base of organic growth. We did not acquire a large number of new practices in 2011. We make only those acquisitions which are likely to lead to stable, solid earnings growth. I can assure you that we considered and rejected many possible acquisitions.

What the 2011 year shows most of all is the power of organic growth in our business. We always seek to build in extra capacity for additional dentists whenever we build or expand one of our sites. We've known for a long time that this works well for us, but in 2011 we really reaped the rewards. Our dentist recruitment effort was particularly successful over the year, enabling us to place additional dentists in many areas of high demand. Organic, incremental growth isn't splashy or exciting to some, but it certainly delivers the goods, and that is exciting to me.

This organic growth has continued and perhaps even accelerated since the end of the 2011 year. I am extremely pleased about how the results are going in the early months of the 2012 year and I look forward to sharing the first half results with you.

A number of the projects commenced early in the 2011 year have already delivered excellent results for us. A year ago you heard me tell you about the practice we acquired in Bray Park. This year I can tell you that we have just paid the vendor dentist in that business a lovely big earnout fee as a reward for the excellent performance of that practice. Bray Park made a profit about 30% bigger than it had in the year before we acquired it, which I believe highlights the potential value of operating within 1300SMILES. The vendor should also be congratulated for helping to deliver a smooth transition on a part-time basis. He deserved the extra payment—which was agreed, subject to performance, when the practice was acquired—and we were happy to pay it.

Also around a year ago we opened a second practice in Bundaberg because the existing Bundaberg facility was running at close to 100% of capacity. Our dentists in Bundaberg have been doing an excellent job and both facilities are well and truly profitable. Multiple practices in the one location also give greater operational balance, reducing the risk of disruption to operations if one of the practices is unavoidably interrupted by factors outside our control.

At the start of September 2011 we opened a beautiful new facility in the medical precinct within the Carindale Shopping Centre in suburban Brisbane. This is the ultimate replacement for the two sites within Carindale which we operated previously. We're particularly proud of this facility and I would urge you to stop in if you find yourself in that part of Brisbane.

Looking ahead, I can tell you that we continue to seek acquisitions that are reasonably priced and compatible with our way of doing things. I would congratulate our board for its taut discipline in approving acquisitions for the right reasons only. 1300SMILES does not make acquisitions for the sake of media attention, ego, or merely to plump up the number of practices we own. We don't make acquisitions to paper over operational shortcomings, and no one gets paid according to how many sites we have. We're all working for results, and sometimes the pursuit of those results will deliver years with few or even no acquisitions. I will take results over numbers of practices every day of the week.

I would also congratulate all of our staff for their contribution to our solid organic growth. That sort of growth comes only when all of the processes and procedures work well, and we can only continue to increase the number of dentists and the size of each dentist's business when the support staff do their jobs well. They do, and I thank them.

It is this dual pursuit of both acquisitions and organic growth which gives balance to our business. A reliance on only one strategy would produce lopsided results, sometimes positive but not always, and a key to successful business and balance is in staying upright at all times.

Capital management

Some of you have heard me say many times before that we constantly focus on Earnings Per Share, and that growing EPS depends both on growing earnings <u>and</u> on controlling the number of shares on issue.

This is a topic which takes us straight to the heart of balance. Some people would argue that we shouldn't hold large cash deposits and that we should borrow more money, as this would amplify our return on equity and make our already-good results even better. We've always chosen to be more conservative than this.

We have generally kept our borrowings on the low side. We have a long record of stable earnings which certainly enables us to borrow large sums if we choose to, but over the past few years having low levels of gearing has not hurt us in any way that I can discern.

In September this year 1300SMILES issued 2,371,284 new shares at \$3.50 each to a range of institutional investors. These shares were issued ex-dividend and so did not receive the fully-franked 8c dividend pre-existing shareholders all received in October. For practical purposes, this means that the buy-in price for the new investors was more

like \$3.61 per share, which I would argue was at or above the market price at the time of the issue whilst still being good long-term value for the new investors, who could not have acquired as many shares on market.

This issue raised a total of \$8.3 million for 1300SMILES. This means that we now have a significant amount of cash in the bank and only very small borrowings in facilities which we choose not to pay down to zero as part of managing our relations with our banks. In addition to our ample cash balance, we have loan facilities in place which are sufficient to enable all foreseeable acquisitions and other capital expenditures.

This new issue expanded the capital base of 1300SMILES by just over 11%, to a total of 23,678,384 issued shares. This raises the bar for us as we seek to deliver increased Earnings Per Share in the 2012 year, but I am at this point entirely confident that there will be no interruption to the year-on-year growth in EPS.

Balanced against the Earnings Per Share objective, of course, is the safety and solidity of our company. The past five years have seen no end of dramas and disruptions in the financial markets, and, looking back, I am extremely pleased that we have always chosen a conservative approach to capitalisation. I make no apology for our company's big cash balance and I am confident that our capital structure is right for the times ahead. Balance is a lot easier if you have a substantial platform under you.

Capital opportunities

The great value of our strong cash position lies in the fact that we can approach our continuing expansion with complete certainty.

During the 2011 year we devoted \$3.4 million to developing, expanding, and improving our facilities. This was money well spent, as we have demonstrated time and again that building our capacity to accommodate dentists leads quickly to bottom-line results.

We have a big pipeline of possible acquisitions. That in itself doesn't mean that we'll proceed to acquire any of the current candidates, but the cash is on hand for those acquisitions which meet our criteria.

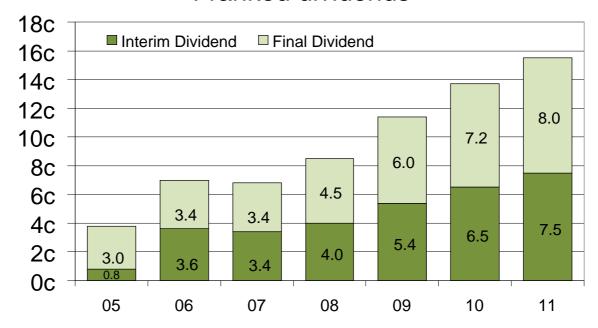
We are presently developing a large new facility in the medical precinct within Stockland's North Shore development in the northern suburbs of Townsville. This will serve a large and fast-growing part of Townsville, which is itself among the fastest-growing cities in Australia.

Throughout our network we will continue to improve and expand our existing facilities, effectively turning our capital into ongoing earnings.

Results in detail

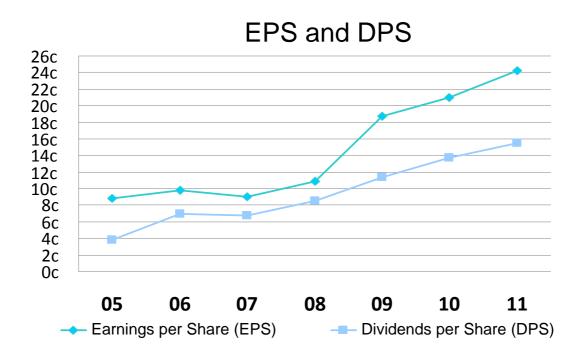
1300SMILES reached a number of financial milestones in the 2011 year. The final dividend of 8c fully franked was the largest ever, as was the full-year total of 15.5c. The 2011 dividend brought the grossed up value of dividends paid since listing to over 95c per share, well in excess of the 80c issue price back in 2005. To those of you who have been with us since the beginning, congratulations and thank you for your ongoing faith. To all shareholders, I assure you that we will do all we can to protect and enhance the growth of our dividend.

Franked dividends

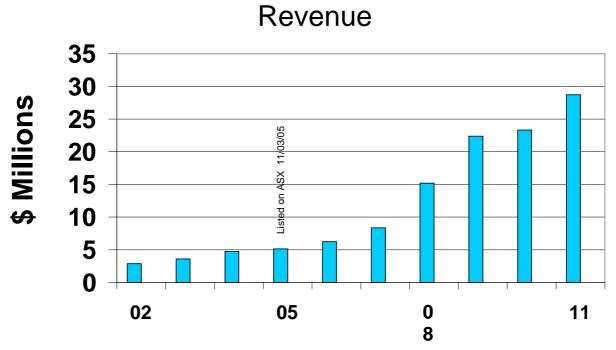


It has always been my practice to remind shareholders that I am every bit as enthusiastic about dividends as you are. As you probably know, I receive far more from this company in the form of dividends on my shareholding than I do as salary and benefits. This, I believe, is as it should be. As our company has grown and matured, more of its managers and key staff have themselves become shareholders, and they have done so by acquiring shares in the company. We're keen to have our employees as shareholders, but we do <u>not</u> give the stock away. When you see 1300SMILES employees on the share register, you know that they bought their shares. That's also as it should be.

Of course, there are no dividends without Earnings Per Share. EPS increased 15% to 24.2 cents per share in 2011.

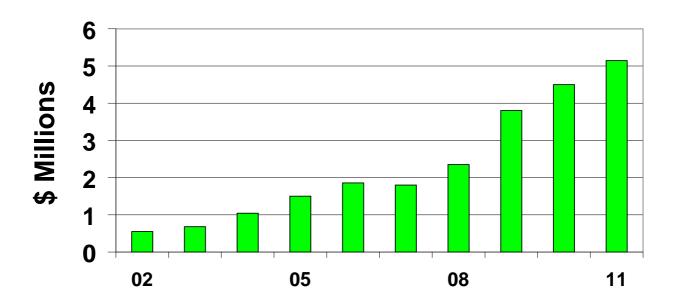


Annual (over the counter) Revenue and Net Profit After Tax grew by 16.1% and 18.9% respectively. As you'll see from the charts, Annual Revenue has grown in every year since listing.



NPAT has grown in every year apart from a fractional decline in the 2007 year, but that seems to be well behind us now.





Corporate social responsibility

1300SMILES remains an enthusiastic supporter of Youth With A Mission and the YWAM medical ship, which delivers medical and dental care to remote parts of Papua New Guinea and other remote settlements in the Pacific. I have done a couple of rotations of dentistry on board, and I assure you that they were among the most personally rewarding experiences of my life.

We encourage 1300SMILES employees and dentists to volunteer on the medical ship, and we hope that our support of this most worthwhile operation also makes it possible for other dentists and health professionals—along with the many support personnel required—to spend some time looking after our nearby and greatly disadvantaged neighbours, and perhaps even gain for themselves a different perspective and balance for their lives.

In a moment I will show a brief DVD about the work of the YWAM medical ship and then take questions. More information about the medical ship is available on our website or via www.ywamships.org.au.

Thanks

I thank you for your support through our first seven years as a listed company, and I thank our many employees and associated dentists for their hard work in delivering these results to you.

Daryl Holmes Managing Director