

**1300SMILES Ltd  
Annual General Meeting 26 November 2015  
Managing Director's Address**

At the 2014 Annual General Meeting, one year ago, I commented that after ten years as a listed company 1300SMILES has far more ahead of it than behind it. I went on to say that I expected to keep on reporting to you for many more annual meetings. I feel at least as strongly about these things today as I did a year ago.

**Ten-year journey gives dental group reason to smile**



**TONY RAGGATT**  
DENTAL group 1300SMILES Ltd clocked 10 years as one of the region's only Townsville-based publicly listed companies yesterday with a staff celebration at its Denham St head office.

It has been an amazing journey for its founder and managing director Daryl Holmes, who started with just one practice at Townsville in 1991 before building the business to six practices when it listed on the Australian Securities Exchange on March 11, 2005.

The group now employs about 400 people in 24 practices throughout Queensland, Sydney and Adelaide.

1300SMILES has a market capitalisation of \$161.72 million.

The company's share price has soared from 80c, on listing, to a high of \$6.70 yesterday, delivering incredible compound annual growth of more than 22 per cent and an annual dividend yield of 2.45 per cent, although with such success, its price-to-earnings ratio has also soared to a very high 27.76. Dr Holmes said he was gratified about the company's achievements.

"It's the culmination of many people's hard work and commitment including staff, dentists, the management team, investors, advisers and supporters," Dr Holmes said.

Staff and management had lunch in its offices at 105 Denham St to mark the milestone.

PARTY: Lisa and Daryl Holmes with 1300SMILES chairman Bob Jones.

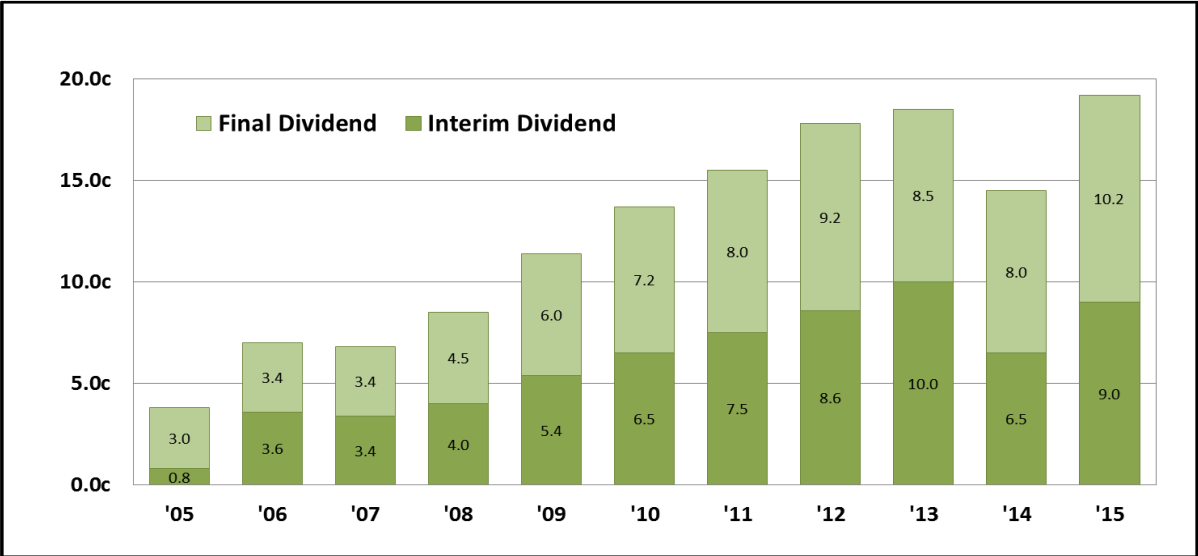
Shareholders will recall that we drew a line across our results two years back, declaring that the 2014 financial year was the first year of the new era and the baseline year against which we would measure our progress going forward. We're now more than two years into that new era, and all important measures continue to move in the right direction.

The results for the 2015 financial year were gratifying indeed, with year-on-year growth of 32% on each of Net Profit After Tax, Earnings per Share, and Dividends per share. These good results derived from solid growth in both Revenue and Over-the-Counter Revenue of 15% and 23% respectively.

	FY'15	FY'14	% Change
Revenue (OTC)	\$53.2m	\$43.3m	+ 23.0%
Revenue (Statutory)	\$36.6m	\$31.8m	+ 15.0%
EBITDA	\$12.1m	\$9.7m	+ 25.0%
EBIT	\$9.4m	\$7.4m	+ 27.0%
NPBT	\$9.4m	\$7.4m	+ 27.0%
NPAT	\$6.6m	\$5.0m	+ 32.0%
EPS	27.8c	21.0c	+ 32.0%
DPS	19.2c	14.5c	+ 32.0%

There has been a lot of talk in the news lately about BHP’s “progressive dividend” policy, under which the company promised to ensure that dividends always increase regardless of commodity prices or sales volumes. There is considerable speculation as to whether BHP will be able to maintain this policy. I won’t add any comment to that.

1300SMILES, as it turns out, has always had a “progressive dividend” policy, but we just never thought to call it that. This fits with our commitment to ensure that the shareholders of 1300SMILES have the experience of being owners of our company: we aim always to increase profits and dividends, and shareholders share directly in the company’s profit results.



Since listing, 1300SMILES has paid an uninterrupted series of twenty-two fully franked dividends, always paid out of recent period profits. Over that entire period the annual dividend has declined only twice: once, slightly, in 2007, and again in 2014. The 2014 financial year, of course, was the first year of the current era, a year which followed one of significant industry-wide disruption.

Our management aim has always been to deliver progressive dividend growth. This depends on hard work and relentless focus at every level within our company. To the best of my ability I aim to ensure that this focus remains as sharp as ever.

Today, more than four months into the 2016 financial year, I can report that the key metrics continue to move in the right direction. Without making any specific forecast for the half year or the full year, I can say that revenue has continued to grow steadily. Thanks to our efficiency and scale, our profitability is growing at a faster percentage rate than our revenue.

One of our newer product offerings, our DMA Dental Vouchers, continues to enjoy wide acceptance and deliver a briskly-growing stream of revenue. These vouchers enable patients to undertake more extensive essential treatment programs by spreading the cost of treatment over many months.

A voucher for \$5,000 worth of treatment, for example, can be funded with 45 weekly payments of \$99--a total of \$4,455, a discount of more than 10% on the normal cost of the treatment.

Normal value of treatment	You save	You pay only
<b>\$5,000</b>	<b>\$545</b>	<b>\$4,455</b>
<b>On treatment day you pay</b>		<b>\$0</b>
<b>Plus 45 weekly payments of</b>		<b>\$99</b>

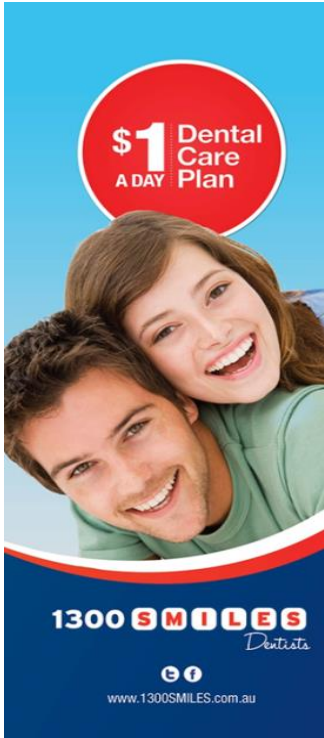
This sort of innovative package fits with our core objective, Making Dentistry Affordable. We are very proud of our ability to make essential dental care available to an ever-growing number of people. At the same time, this approach generates a growing source of revenue for our dentists and ultimately for shareholders.

This ability to function as a generator of demand for our dentists is becoming increasingly important. As I have commented on many occasions before, Australia faces an over-supply of new graduate dentists, mainly as a result of a vast expansion of dentistry courses driven purely by politics and without consideration of actual market conditions.

The scale of our operations creates opportunities for us to constantly absorb additional dentists and deliver to them a reliable supply of patients. For each dentist we add, our total business need expand by only a very small percentage. Compare that to the situation faced by a one or two dentist operation, which has to expand its business suddenly and by a huge margin to make it possible to employ an additional dentist.

Overall, I believe the oversupply of dentists creates a differential advantage for 1300SMILES. Dentists at all stages of their careers increasingly recognise the advantage of working within a strong marketing group which constantly creates and delivers programs such as our \$1-a-day Dental Care Plan and the DMA Dental Vouchers.

As always, we continue to work on additional acquisitions. We work hard to ensure that every acquisition meets our demanding standards, and we do not hesitate to walk away from any deal which fails to measure up on every single criterion. We all wish that we were making more acquisitions, faster, but the discipline we bring to this process has served shareholders well for more than a decade and we do not propose to relax our standards by even the slightest margin.





Good acquisition opportunities present themselves on an unpredictable schedule and will continue to do so. As always, we are working on several possibilities at this moment and hope that we will be able to announce new deals over the coming months.



I have for a long time been convinced that our sponsorship of the 1300SMILES Stadium in Townsville has delivered good value by keeping our name in front of people who might not be thinking about dentistry at a given moment but for whom our name will be top-of-mind when the time comes. We had a special bonus this year when the North Queensland Toyota Cowboys won the National Rugby League Premiership in a gripping, nail-biting Grand Final win, resulting in an extra celebration event at 1300SMILES Stadium which was packed with local fans and broadcast widely.



Toward the end of the 2015 financial year Dr. Glen Richards joined our board of directors. Glen was the founding managing director of Greencross Ltd (ASX: GXL) and he guided the growth of that company to over 120 veterinary practices plus 200 pet specialty stores. Glen already makes a strong contribution to our company. Shareholders will note that we have kept the board lean with just three directors, as has been our practice ever since listing. We believe that a small, tightly focused, low cost board delivers maximum value for shareholders.



Our long association with Youth With A Mission and the Medical Ship continues to go from strength to strength. Just last week I had the pleasure of visiting the new and much larger ship I told you about at last year's AGM.

<http://ywamships.org.au/>

The new ship is equipped with four complete dental chairs, so there's more room than ever before for dentists and staff to render volunteer service to some of the world's neediest people and out nearest neighbours just up in Papua New Guinea.

Daryl Holmes  
Managing Director





## **ABOUT 1300SMILES LTD**

### **OVERVIEW OF THE COMPANY'S BUSINESS**

1300SMILES Ltd owns and operates full-service dental facilities at its sites in New South Wales, South Australia, and in the ten major population centres in Queensland. The company continually seeks to expand its presence into other geographical areas throughout Australia. It does so both by establishing its own new operations and by acquiring existing dental practices. The administrative and corporate offices are in Townsville.

1300SMILES enables the delivery of services to patients by providing the use of dental surgeries, practice management and other services to self employed dentists who carry on their own dental practices. The services provided by the company allow the dentists to focus on the delivery of dental services rather than on the administrative aspects of carrying on their businesses. The dentists pay fees to the company for the provision of these services under a Dental Service Agreement with the company. In some circumstances the company also employs qualified dentists.

The dentists who use the company's services range from new graduates to experienced dental professionals. Several dentists who use the company's services have special interests and experience in such areas as endodontics, oral surgery, implants and periodontics and cross-refer work to other dentists who use the company's services.

The company provides comprehensive services in the areas of marketing, administration, billing and collections, and facilities certification and licensing to all participating dentists. The company also provides all support staff, equipment and facilities, and sources all consumable goods using the buying power which derives from such a large group of dental businesses.

### **FUTURE DEVELOPMENTS**

The company's core objective is to continue to increase profits and shareholder returns while providing a rewarding environment for our staff and the dentists using our facilities.

The company aims to achieve a combination of organic growth in its existing locations and the addition of new practice management facilities.

The key drivers for future growth of the company are:

- Increasing profits by attracting more dentists to our existing facilities and expanding those facilities which are already at full capacity;
- Assisting dentists who already practice within the 1300SMILES system to increase their turnover and income through benchmarking, training, and mentoring;
- Establishing new practices in existing and new regions (greenfield sites);
- Acquiring substantial existing practices where we can do so on favourable terms; and
- Managing dental facilities owned by others.

### **DENTIST ENQUIRIES**

Owners of dental practices who are interested in unlocking the goodwill value of their businesses (or freeing themselves from all the management hassles) are invited to contact Dr. Daryl Holmes, Managing Director, on +61 (7) 4720 1300 or [md@1300SMILES.com.au](mailto:md@1300SMILES.com.au).

Qualified dentists who wish to know more about joining one of our established facilities are encouraged to contact Dr. Holmes directly or email [dentalcareers@1300smiles.com.au](mailto:dentalcareers@1300smiles.com.au) or visit our website [www.dentalcareersaustralia.com.au](http://www.dentalcareersaustralia.com.au).