

1300SMILES Ltd
Annual General Meeting 10 November 2016
Managing Director's Address

Our twelfth Annual General Meeting today is attended by shareholders, directors, dentists and staff of 1300SMILES Ltd, industry analysts, and members of the press. I welcome you all.

Forecasts

Over nearly twelve years as a listed company we have always refrained from making projections. Over that entire time we have simply reported our recent results and assured shareholders that our aim is to deliver more of the same. I think this has worked out pretty well for all of us.

	FY'16	FY'15	% Change
Revenue (OTC)	\$51.1m	\$53.2m	- 3.9%
Revenue (Statutory)	\$36.4m	\$36.5m	Flat
EBITDA	\$13.1m	\$12.1m	+ 8.2%
EBIT	\$10.9m	\$9.4m	+ 16.0%
NPBT	\$10.9m	\$9.4m	+ 16.0%
NPAT	\$7.6m	\$6.6m	+ 15.8%
EPS	32.2c	27.8c	+ 15.8%
DPS	22.5c	19.2c	+ 17.2%

From this vantage point, however, I am free to look back and tell you what I would have predicted twelve years ago. Looking ahead from the year 2005, I have to tell you that I would have expected the essential evolution of our industry to be all over by now.

In 2005 virtually 100% of dentists worked in very small businesses, many of them as individuals located in converted houses, and often with the dentist's spouse as the receptionist and practice manager. Against that, our company offered many obvious advantages: centralised, professional marketing, plus specifically qualified staff looking after human resources, technical support, and licensing issues.

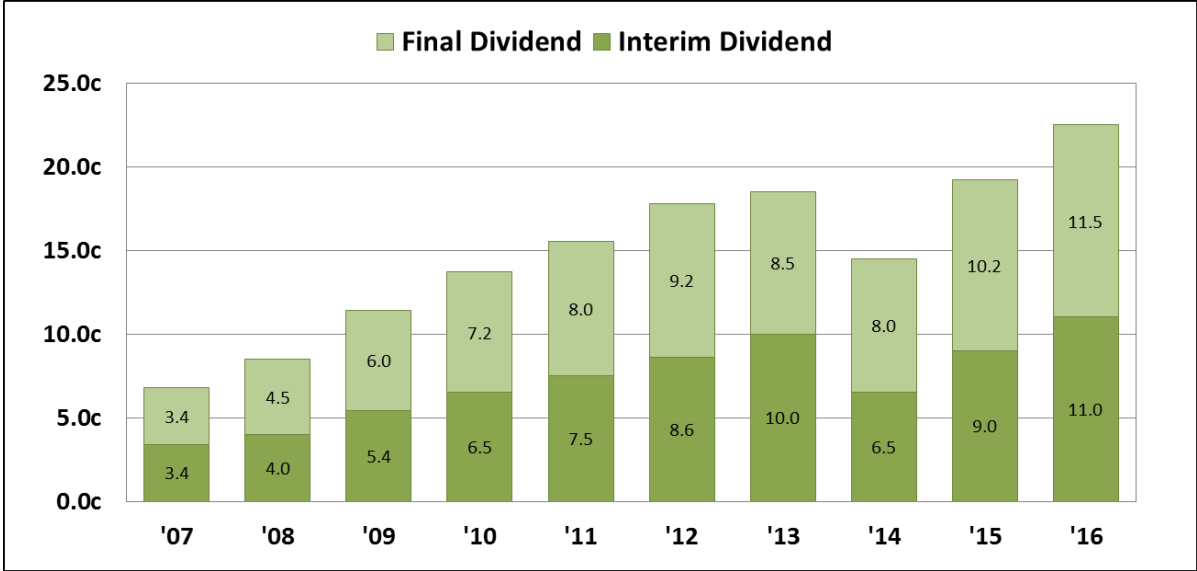
In 2005 I would have predicted that 1300SMILES and other corporate dental operators would have swept up all but the most resistant of the old-style dentists and that by 2016 various corporates would have most of the market. It certainly hasn't yet worked out that way.

As I stand before you in late 2016, dentistry in Australia is still primarily a cottage industry. The majority of dentists still work out of small facilities run by very small businesses. The trend toward professional corporate management certainly continues, and it has a long way to run. I estimate that around seventy percent of all dentists in Australia continue to operate in inefficiently small business structures. Increasingly this group comprises older dentists, many of whom have simply decided they want to do it the old way until they retire. That's a decision they have every right to make.

My outlook for the dental industry remains much the same: the shift from small business operations to more efficient structures will continue and perhaps accelerate from here as Millennial dentists show less and less interest in owning practices while feeling the pinch of a more competitive market.

None of that is to suggest that 1300SMILES has done anything other than a good job for shareholders. You all know that I am acutely attuned to the interests of shareholders, as the vast bulk of my reward for doing this job comes in the form of dividends on the shares I've owned since before listing. No share options, no executive share plan--just the shares I have always owned.

Our good results show up most clearly in our uninterrupted stream of fully franked dividends, now up to 24 in a row. Our full year dividend for the year to 30 June 2016 was 22.5c per share, up 17% on the previous year and almost six times the dividend paid in 2005.



I will not break with tradition by making any forecast of our future results. I can assure you that your directors, along with the managers and staff of 1300SMILES Ltd, will continue to work to deliver good results for shareholders.

New practices

Just a few weeks ago we announced the acquisition of two dental practices in the inner suburbs of Sydney, one in Stanmore and one in Waterloo. We mentioned in our statement to the stock exchange that these acquisitions were not “material.” I’ve had a few questions from shareholders who wondered if that meant that these new practices are not important. Certainly not.

The concept of “material” impact is a matter of compliance with Australian Stock Exchange rules. By advising that these acquisitions are not “material” we’re simply advising that neither of them is expected to cause an immediate change to our revenue or profit of more than about five percent.

But let me assure you that “not material” absolutely does not mean unimportant. Both the Stanmore and Waterloo acquisitions are established businesses in urban settings, and we regard both of them as well-suited to our strategy. We expect both to make positive contributions to our profit from day one, and both give us significant scope for expansion in a major market catchment.



Waterloo in particular is slated for substantial population growth. This growth has been well planned and considered, with public transport and public amenity foremost in its design. We expect that Waterloo will be an increasingly desirable address. Our facility there gives us easy access to plenty of potential new patients.

Stanmore is a more established suburb but nevertheless one in which we see room for substantial expansion. Together with our facility in Cammeray, these two new facilities are useful steps on the way to building a comprehensive network of dental surgeries throughout Sydney.

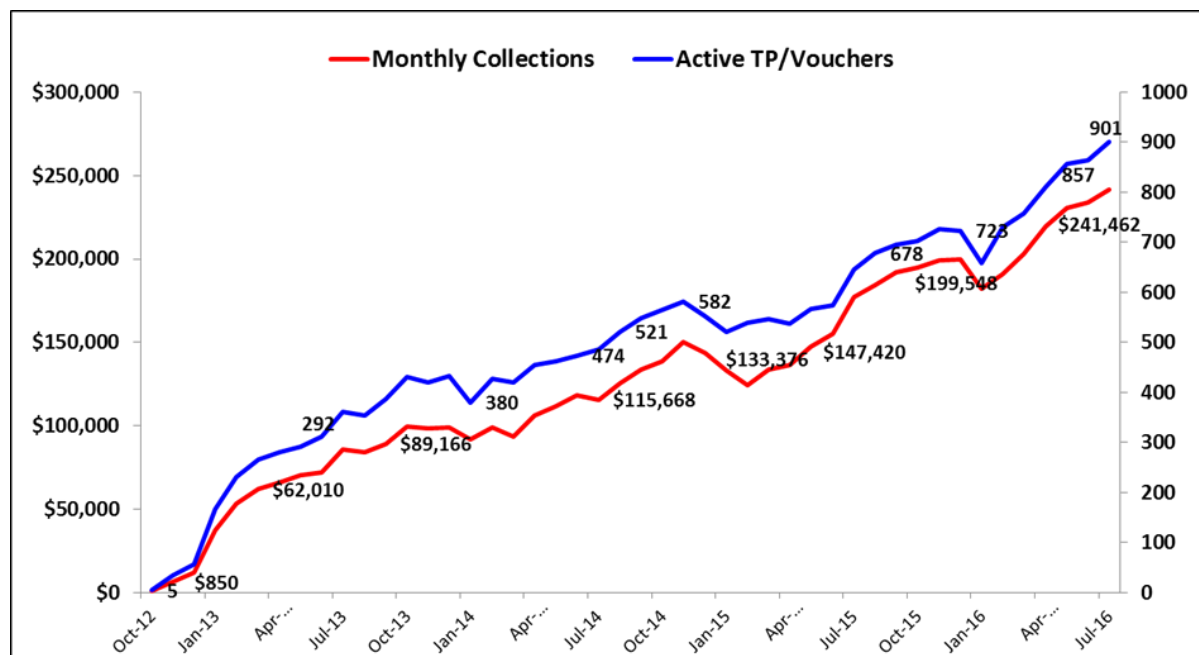
We have at all times a number of potential acquisitions in the pipeline. As always, we will be extremely particular about acquisitions. I wish we had new acquisitions to announce every quarter, but in the long run it’s far better for shareholders that we continue to apply our extremely strict standards and make only those acquisitions which deliver clear and substantial benefits to shareholders.

Consumers

I have in the past shared my view that 1300SMILES competes not so much with other dentists but rather with all of the other goods and services which compete for consumer spending. A portion of our revenue comes from urgent, non-elective treatment, but we have to recognise that in the minds and wallets of many consumers good dental care is sometimes balanced up against the latest offerings from Harvey Norman or from Flight Centre.

Some of the regional centres in which we operate have seen downturns in key industries, and we do see the effect of reduced consumer spending in some regions. Against this other regions continue to deliver excellent growth. Thanks to the large number of professionals in our system we enjoy considerable flexibility to deploy dentists and staff where they are most needed without having to ask specific individuals to shift to different markets.

In addition to localised economic conditions affecting certain regions, ongoing government instability is having a depressing effect on both businesses and consumers. Both the federal government and the Queensland state governments hang by the thinnest of threads and seem unable to govern in any coherent way. I think most shareholders would agree with me in wishing for stable governments, but in the meantime 1300SMILES will continue to play the hand it has been dealt.



Against this background of uncertainty, our patients have responded with great enthusiasm to our 1300SMILES Dental Vouchers program. This program gives patients affordable access to essential dental work which might otherwise be unavailable to them. The Vouchers enable patients to fund their treatment via fixed weekly direct debit payments of \$49 to \$99. Patients choose a payment scheme compatible with their family budgets. By freeing our patients from the stress of a single big bill for essential treatment we enable them to make decisions with their health as the paramount consideration. In return, our company has the certainty of payment via the direct debit system over the course of treatment.

Sleep therapy and Oventus

Recently we announced a collaboration with Oventus Medical Ltd which enables our dentists to provide treatment for snoring and sleep apnoea. Under the agreement, our dentists can choose to undertake the extra training required to prescribe and fit Oventus devices, under the guidance of sleep specialists.

I've said this before, and I'll say it again: dental health is health, full stop. Good oral health generally is key to keeping people off a downward spiral which ends in serious disease and death. By providing professional assistance with serious and often deadly sleep disorders we enter an additional field in which the benefits to patients extend far beyond the bounds of what most people might consider dental care.



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and a BETTER LIFE

OVENTUS™ 1300 SMILES
Dentists

We expect the combination of the Oventus product, the oversight of senior sleep specialists, and our dentists' specific hands-on knowledge of the interaction of a patient's teeth, jaw, and soft tissue will deliver greatly enhanced quality of life to many of our patients.

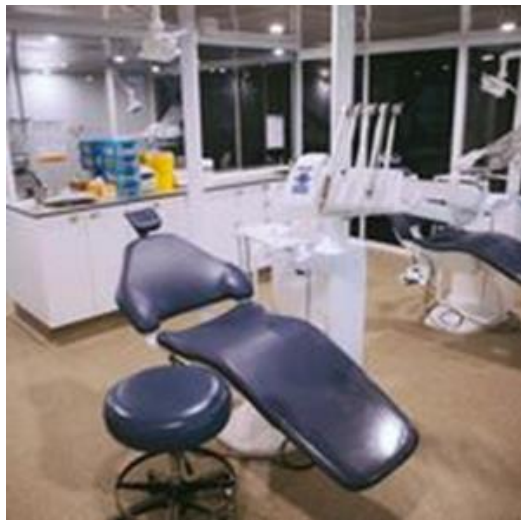
The target market is large indeed, with over 800,000 Australians suffering from obstructive sleep apnoea. This disease is the source of much illness and death and I am proud of our effort to keep as many people as possible off this terrible path.

YWAM

I am about to be reminded--personally, directly, and powerfully--of the relationship between oral health and general health, as I'll be departing for another spell of service on the medical ship MV YWAM PNG operated by Youth With a Mission. The work schedule is relentless, but I'm confident I'll return home recharged and refreshed, as I have from previous trips. I remain most enthusiastic in encouraging all of our dentists and staff to take up the wonderful opportunity to serve as a volunteer.



Dr 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.

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 or visit our website www.dentalcareersaustralia.com.au.