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ABN 42 103 087 449 / ACN 103 087 449

17 November 2016

The Manager  
Company Announcements  
Australian Securities Exchange Limited  
Level 4, 20 Bridge Street  
SYDNEY NSW 2000

Dear Sir/Madam,

**2016 AGM Presentation and Address**

We attach a copy of the prepared presentation materials and the addresses to be delivered by the Chairman and Managing Director at the Company's Annual General Meeting today.

The Managing Director's address includes a trading update and review of the FY 2017 outlook and guidance.

Yours faithfully,

Jane Coleman  
Company Secretary  
Pacific Smiles Group Limited



**PACIFIC SMILES GROUP LIMITED  
2016 ANNUAL GENERAL MEETING**

**Level 1, 6 Molly Morgan Drive Greenhills, NSW  
4.30pm, 17<sup>th</sup> November 2016**

**CHAIRMAN'S ADDRESS  
*Robert Cameron AO***

I am honoured to address you as Chairman of Pacific Smiles Group at our 2016 Annual General Meeting. Pacific Smiles Group continues to lead the way with a branded network approach to the Australian dental services industry.

Financial year 2016 was our first full financial year as an ASX listed entity. Details of our performance in financial year 2016 will be provided by Pacific Smiles' CEO and Managing Director, John Gibbs. John will also provide a trading update for the current financial year to date.

I will begin the presentation today with an overview of the foundations for the long term growth of Pacific Smiles Group. Our growth to date has been impressive and we have a long runway ahead of us as we continue to successfully roll-out dental centres that appeal to patients and to the dentists who practice from them.

The key foundations for continued successful growth are:

1. Large market opportunity – we are addressing a very large market, currently approximately \$9 billion, which is still fragmented and cottage in nature, despite more corporate activity in recent years. We have identified in excess of 250 catchments suitable for Pacific Smiles Dental centres and are delivering against this runway with a roll-out of quality dental centres in convenient locations with easy parking and extended hours of operation.
2. Focus on organic growth - unlike most other competitors of scale in our industry, Pacific Smiles is expanding via a roll-out of dental centres, not a roll-up of existing dental practices via acquisition. This approach facilitates the consistency of location attributes, design, branding and operations which is fundamental to successful patient and dentist engagement, my next point.
3. Successful dentist and patient engagement – Pacific Smiles must delight both dentists and patients. The dentists are not employees, they are independent professionals who engage Pacific Smiles to provide them with a fully serviced surgery. They negotiate up-front as to the days and locations of practice and the anticipated mix between working periods and periods of absence and sign a service and facility agreement with no lock-in term. These features, combined with the collegiate environment that arises in larger dental centres with multiple dentists, makes the Pacific Smiles model highly appealing to dentists. For patients, Pacific Smiles offers accessibility by virtue of predominantly retail locations and extended hours, affordability through dentist participation with health fund and government schemes and consistency of patient experience. Our high Net Promoter Score of over 70 is testament to the satisfaction of our patients. The patient experience focus is complemented by our clinical governance and sharp focus on safety.



4. Strong financial performance – from Financial Year 2008 to Financial Year 2016, our compound annual growth of underlying EBITDA was 21%. Over the past several years, our Return on Invested Capital has been approximately 50% p.a. We have expanded profitably over an extended period of time and through some material changes in the industry funding environment.
5. Accomplished Leadership Team – the CEO, CFO and key members of the management team have been with the business for many years. This includes the founders, who are part of the Senior Leadership Team and are active in day-to-day and strategic management.

I have explained the foundations of our successful growth, now I would like to communicate the 'why' – our True Purpose. Our True Purpose is to improve the oral health of ALL Australians to world's best. This is the higher order aim which compels us to expand and improve our business continuously. Our aspiration is that by 2030, one in ten dental appointments in Australia will occur at a dental centre operated by Pacific Smiles.

I offer sincere thanks to the whole Pacific Smiles team, my fellow Directors, the senior leadership group, and our employees, without whom we could not provide such high quality service and care to patients and dentists.

Finally, on behalf of the Board I would like to thank all of our Shareholders for their ongoing support.

I will now hand over to John Gibbs, Pacific Smiles' CEO and MD to discuss business performance in more detail.



## **MANAGING DIRECTOR'S ADDRESS**

***John Gibbs***

Today I will start by providing some more detail on the FY2016 results. Following that, I'll cover the FY2016 operational highlights, provide an FY2017 operational update, a recap of some of the key features of the business model and industry, before finishing with a trading update and outlook.

### **FY2016 Results Summary**

FY2016, our first full financial year as an ASX listed company, was a record year for Pacific Smiles Group. Key highlights for the year ended 30 June 2016 are as follows:

- Underlying Net Profit After Tax was \$10.2 million, up 4.5% on the prior year pro-forma result.
- Underlying EBITDA was \$19.7 million, up 8.1% on the prior year pro-forma result.
- Underlying EBITDA margin of 14.7%, with a second half margin of 15.2%.
- Patient Fees across our dental centre network were \$133.8 million, up 10.2% on the prior year. Same centre patient fees grew 5.0% for the year.
- The balance sheet remained strong, with \$6.0 million of net cash at year end. This has allowed us to maintain a high dividend payout ratio while accelerating the new centre rollout. We have paid a final fully franked dividend of 3.5 cents per share. Ordinary dividends declared for the year totalled 5.5 cents per share fully franked, which was a 10% increase on the previous year, and represented 82% of underlying Net Profit After Tax.
- Our Return on Invested Capital (on underlying EBIT) was strong at 47% for the year.

Overall we were quite pleased with the continued performance of the business in FY2016, however, we continue to work at improving operational and financial performance.

### **FY2016 Operational Highlights**

During 2016, we grew from 49 to 58 dental centres with 9 new Pacific Smiles Dental Centres opened at Browns Plains, Burleigh Heads, Capalaba, Helensvale, Morayfield and Mount Ommaney in South East Queensland, Cranbourne Park and Point Cook in Victoria and Queanbeyan in regional New South Wales, in close proximity to our ACT cluster. This was a record number of new dental centres in a year for Pacific Smiles and it reflected our continued focus on expanding within geographic clusters.

We also relocated two large dental centres previously acquired from Medibank, into new premises with contemporary and efficient design and fitout to provide an improved patient experience. While the performance of these centres is not yet at the level expected of mature Pacific Smiles Dental Centres, progress is being made and they are making a positive contribution to earnings.

On-line appointments were introduced during FY2016 for both the Pacific Smiles Dental Centres and the nib Dental Care Centres and have been well accepted by patients as a convenient way to make their dental bookings.



A partnership with Velocity Frequent Flyer was initiated to reward patients for attending their regular check-ups, an initiative that strongly supports our True Purpose of improving the oral health of ALL Australians to world's best.

A multi-channel marketing campaign was launched across regional TV, radio, digital and some cinemas to boost awareness of Pacific Smiles Dental. We continue to use the materials developed in a number of current campaigns.

Another operational highlight was completion of key hires to round out our leadership team.

Our focus on operational excellence was reflected in solid improvement in our Net Promoter Score to over 70 in FY2016, from an already impressive result in FY2015. We see this as one of our most important measures and pleasing outcomes.

### **FY2017 Operational Update**

Since 1 July, we have opened two new Pacific Smiles Dental Centres, one at Westfield Plenty Valley in Mill Park in Victoria and the other at the Strathpine Centre in the northern suburbs of Brisbane. Both are open 7 days a week, with appealing locations in busy shopping centres, which are within existing geographic clusters of Pacific Smiles Dental Centres. Patient response to date at both these new centres has been pleasing.

There are currently three more new Pacific Smiles Dental Centres under construction. One is located within our growing Melbourne East cluster at Ringwood, another for Brisbane at Redbank Plains, and one in Westfield Warringah Centre at Brookvale in Sydney. These three and others planned for the remainder of FY2017 are in shopping centre tenancies.

In terms of our established centres, the Net Promoter Score in FY2017 remains very strong at above 70, which means that patients are highly satisfied with the treatment and care delivered by dentists and staff. The appeal of on-line appointments continues and 8% of the patient base are now making their appointments this way.

We identify two key customer groups in our model, one being patients and the other being dentists. With regard to the latter, we have introduced an annual conference for our leading practitioners called Inspire, designed to provide them with clinical education and other information relevant to continuous improvement of their clinical practices. Attending dentists were universally positive of this addition to the annual calendar.

The two large dental centres acquired from Medibank Private in June 2014 and which were relocated during FY16 to better sites with contemporary design and fitout, continue to trade below expectations, although they continue to make a positive contribution to earnings.

### **Dental Centre Network**

Including the two new centres opened since July, there are now 60 dental centres in our network, of which 53 are Pacific Smiles Dental Centres and 7 are nib Dental Care Centres.

As can be seen from the map, about half the centres are in NSW, with the other half spread across Victoria, ACT and Queensland. Expansion tends to be within already established geographic clusters or in new areas proximal to established clusters. This approach is working well for us in terms of operational efficiencies and marketing benefits.



## **Drivers of Earnings Growth**

We identify three key drivers of earnings growth:

1. Growth of Existing Centres – with over 40% of our centres being less than 3 years old, we see material uplift in the patient fees at these centres as they mature. Most of the centres that are less than 3 years old have capacity for 3 to 4 surgeries, but only 2 surgeries commissioned from opening. Therefore, as patient demand for these centres builds, capacity can be expanded in a relatively capital-light way by commissioning the additional surgeries. Patient volume growth is enhanced by effective marketing and the delivery of a perfect patient experience in centre.
2. New Centre Rollout – we continue to carefully and prudently accelerate our rollout of new centres and this year, we expect to open at least 10 new centres.
3. Margin Expansion – over time, as the network continues to expand and as more centres mature, margin will improve as a result of greater scale. Corporate support infrastructure will not grow at the same rate as overall business size.

## **Dental Industry Update**

The dental industry is large, valued at almost \$9b in 2013-2014. It has also shown good growth of 6% p.a. over the five years to June 2014. This growth has been quite resilient, even during shocks such as the discontinuation of the Government's Chronic Diseases Dental Scheme in 2012.

The main reason that people do not attend a dentist regularly is ignorance of the importance of dental health to overall health and/or concerns over cost. We believe there is an opportunity for step change in attendance patterns by addressing these concerns via education and a continued emphasis on affordability, particularly through dentists participating with third-party funders. This is in keeping with our true purpose to improve the oral health of ALL Australians to world's best.

Dental care is differentiated from other health services by virtue of the fact that it is predominantly privately funded. Government funding is just 7% compared to 82% for general medical. While this minimises the risk of government funding changes, it means that dental demand can be economically sensitive.

Government funding currently consists of the federal government's Child Dental Benefits Schedule, some partnership arrangements between Federal and State governments and State government funding and public health infrastructure. There is a desire by the Federal Government to replace the Child Dental Benefits Schedule with a new scheme, the Child and Adult Public Dental Scheme, but this changes requires sufficient support in the Senate.

Private health insurance influences dental attendances, yet even privately insured patients contribute to the costs of their treatments, the exception being no-gap check-ups provided by many of the funds under various tables of cover. Media reports suggest that people with private health insurance are downgrading their cover and/or considering dropping their insurance. This is an area that we are watching closely given the importance of private health insurance to dental attendances.

The dentist workforce has grown by 2,000 over the four years to March 2016. There are more female dentists and more dentists working part-time. From the perspective of a serviced facility



provider, these trends are generally positive in regards to the appeal of our model to the growing pool of dentists in Australia. However, the increased volume of dentists is likely to also boost the competition for patients, so Pacific Smiles needs to continue to work hard to attract and retain patients at existing and new Dental Centres.

### **Trading Update and Outlook**

I will now talk to the FY2017 trading update.

We reaffirm the FY2017 full year guidance provided in August, which was:

- EBITDA for FY2017 expected to be in the range of \$21.7m to \$23.2m
- Same Centre Patient Fees Growth of at least 5%
- At least 10 new dental centres opened

After reporting a flat start to the financial year at our last update in mid-August, same centre patient fees growth has accelerated to 4% for the year to date.

The two large Sydney-based centres acquired from Medibank are not performing to expectations and have weighed heavily on growth. Excluding these two centres, same centre patient fees for the Group are up 5% on the prior year for the year to date. The acquired centres are generating an acceptable return on invested capital and the wider Pacific Smiles Dental network benefits from the Medibank/AHM relationship are pleasing, however the margins achieved at the acquired centres are well below Group average. Driving improvement remains an important focus for management.

We note that the wider industry is reporting softer trading conditions, but our overall strategy remains the same. We will continue to roll-out dental centres that are appealing to both dentists and patients. We have a strong pipeline of new centre opportunities. We have three more new centres currently under construction and another committed site at which works will soon commence.

Our proposition for dentists centres on providing them with the ability to focus on dentistry rather than other business related and administrative tasks.

Our proposition for patients centres on making a visit to the dentist a better patient consumer experience with convenient locations, long opening hours, and assurance that clinical standards are observed. The Pacific Smiles approach aims to deliver this improved experience.

We continue to put the dentist and the patient experience at the centre of everything we do.

In closing today, I wish to thank my executive team and all the staff and dentists at Pacific Smiles for their efforts.

*-END-*



Presented by:  
Robert Cameron AO, Chairman  
John Gibbs, Managing Director & Chief Executive Officer

17 NOVEMBER 2016



# ANNUAL GENERAL MEETING



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# AGENDA

- 
- 1. CHAIRMAN'S ADDRESS**
  - 2. MANAGING DIRECTOR'S ADDRESS**
  - 3. ANNUAL GENERAL MEETING RESOLUTIONS**

# CHAIRMAN'S ADDRESS

# ROBERT CAMERON AO



# FOUNDATIONS FOR LONG TERM GROWTH

## Large market opportunity

- \$9 billion Australian dental market which is highly fragmented
- Identified network potential of at least 250 dental centres

## Focus on organic growth

- Focus on organic roll out of centres, rather than acquisitions
- Facilitates consistency of branding, operations, patient experience, dentist engagement and dental centre design

## Successful dentist and patient engagement

- Highly consistent dentist engagement model, not based on long term contracts or “lock ins”
- Excellent post visit survey results (Net Promoter Score of >70)
- Strong focus on clinical governance and safety

## Strong financial performance

- Long term EBITDA<sup>1</sup> compound annual growth of 21% per annum
- Return on Invested Capital approximately 50%

## Accomplished leadership team

- Long term core leadership team
- Founders continue to be highly engaged with the business in management and clinical governance capacities

Note:

1. EBITDA expressed on an underlying basis for FY08 to FY16

# OUR TRUE PURPOSE

**“To improve the oral health  
of ALL Australians to  
world’s best”**

***By 2030, our aspiration is to service  
one in ten dental appointments in  
Australia***





# MANAGING DIRECTOR'S ADDRESS

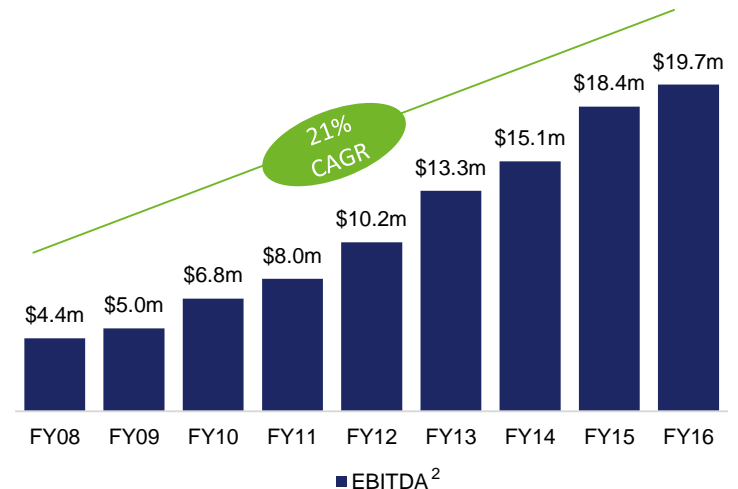
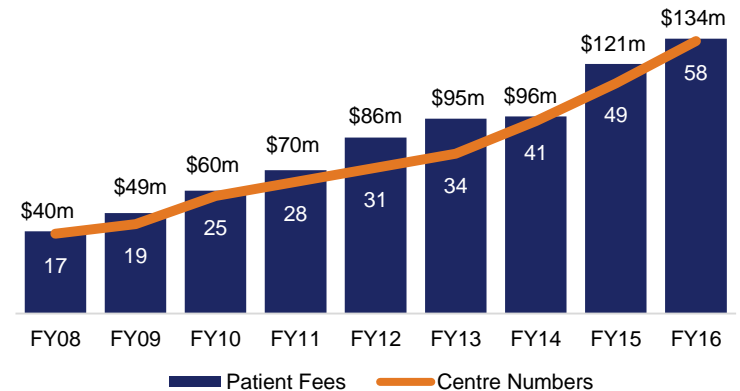


# JOHN GIBBS



# FY 2016 RESULTS SUMMARY

- Patient fees \$133.8 million, up 10.2% (FY15: \$121.4 million)
- Revenue \$83.3 million, up 11.3% (FY15: \$74.9 million)
- Same centre patient fees growth +5.0% (FY15: +4.3%)
- EBITDA (underlying) \$19.7 million<sup>1</sup>, up 8.1% (FY15 pro forma: \$18.2 million)
- EBITDA (underlying) to patient fees margin of 14.7%, with H2 2016 margin of 15.2% a significant improvement on H1 2016
- NPAT (underlying) \$10.2 million, up 4.5% (FY15 pro forma: \$9.7 million)
- ROIC (EBIT underlying) 47% (FY15: 56%)
- Final dividend of 3.5 cps (fully franked) declared, bringing full year dividends to 5.5 cps, up 10.0% (FY15: 5.0 cps)
- Net cash of \$6.0 million



Notes:

1. Underlying EBITDA refers to statutory EBITDA adjusted for one-off costs. FY16 statutory EBITDA was \$19.3 million, and included \$0.4 million in one-off costs associated with two major dental centre relocations. See Appendix A for more detail
2. EBITDA chart refers to underlying EBITDA. FY15 underlying EBITDA of \$18.4m differed to pro forma EBITDA due to the pro forma adjustments set out in Appendix A

# FY 2016 OPERATIONAL HIGHLIGHTS

- Network expansion with 9 new Pacific Smiles Dental centres opened
- Major relocations of 2 large dental centres, with the new sites established in Parramatta and the Town Hall precinct in Sydney (formerly in nearby Haymarket)
- Net Promoter Score improved compared with the previous year, with a score of over 70 for FY 2016
- Online appointment bookings successfully launched for Pacific Smiles Dental and nib Dental Care Centres
- New marketing initiatives with the launch of a unique partnership with Velocity Frequent Flyer aligned to regular dental check-ups, and a multi-channel brand marketing campaign in selected key markets featured on television, radio, digital and cinema
- Key senior hires completed (People & Culture, IT, Business Development)



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# FY 2017 OPERATIONAL UPDATE

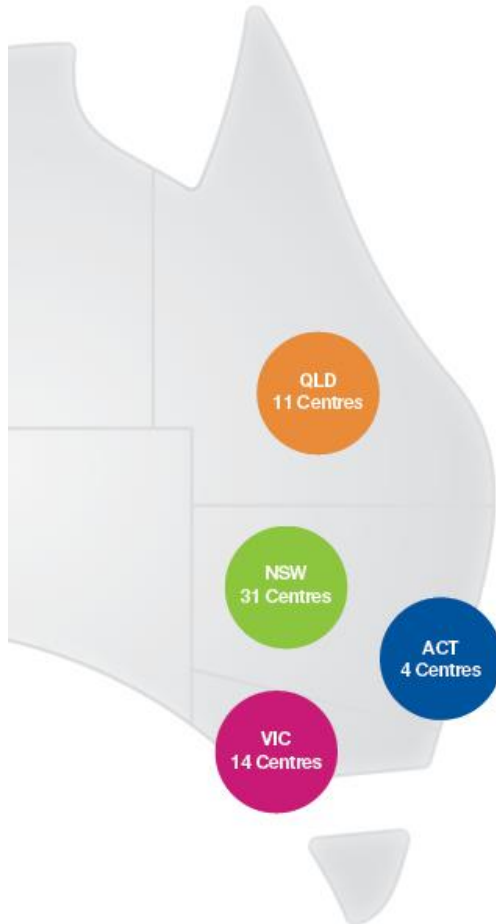


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- Network expansion continues with 2 new Pacific Smiles Dental centres opened at Strathpine (Queensland) and Mill Park (Victoria)
  - 3 further Pacific Smiles Dental centres are currently under construction: Redbank Plains (Queensland), Brookvale (Sydney) and Ringwood (Victoria)
  - All new centres opened and planned for FY17 are situated in retail locations
  - Net Promoter Score remains extremely strong, with a score of over 70 for FY17 YTD
  - The two large Sydney dental centres acquired from Medibank in 2014 remain work-in-progress, with performance below expectations in FY17 to date
  - Continued uptake of on-line appointments, which now account for approximately 8% of total bookings
  - Launched the inaugural “Inspire” conference, bring together leading dentists within the Pacific Smiles network



# DENTAL CENTRE NETWORK

60 dental centres in total, of which 53 are branded Pacific Smiles Dental and 7 are branded nib Dental Care Centre



Queensland	
Bribie Island	Helensvale
Brisbane CBD	Morayfield
Browns Plains	Mt Ommaney
Burleigh Heads	North Lakes
Capalaba	Strathpine
Deception Bay	
New South Wales	
Belmont	Parramatta
Bateau Bay	Penrith
Blacktown	Queanbeyan
Charlestown	Nowra
nib Chatswood	nib Newcastle
Erina	Rutherford
Forster	Salamander Bay
Gladesville	Singleton
Greenhills	nib Sydney
nib Glendale	Toronto
Jesmond	Town Hall
Kotara	Tuggerah
Lake Haven	Wagga Wagga
Morisset	Warilla
Narellan	nib Wollongong
nib North Parramatta	
Australian Capital Territory	
Belconnen	Tuggeranong
Manuka	Woden
Victoria	
Bairnsdale	Mill Park
Bendigo	Point Cook
Cranbourne Park	Sale
Drysdale	Torquay
Melbourne	Traralgon
nib Melbourne	Warragul
Melton	Waurm Ponds

# DRIVERS OF EARNINGS GROWTH

## 1. GROWTH OF EXISTING CENTRES

- >40% of centres less than 3 years old

## 2. ROLLOUT OF NEW CENTRES

- Targeting at least 10 new centres per annum
- Future trade areas identified which support network potential of at least 250 dental centres



## 3. MARGIN EXPANSION

- Increased scale, new centre ramp-up and operational improvements

# DENTAL INDUSTRY UPDATE

## Industry Size

- **Expenditure on dental services** amounted to \$8.9bn in 2013-14 and has grown at a compound annual growth rate of approximately 6% over the five years to 30 June 2014<sup>1</sup>
- **Opportunity for step change in attendance patterns** via driving education and affordability
- **Historically resilient sector** including throughout periods of change in the funding environment, such as in 2012 when the Chronic Diseases Dental Scheme was removed

## Funding

- **Federal Government funding** of the dental sector is low compared to other areas of primary care – only 7% of dental expenditure comes from this source compared to 82% for general medical<sup>1</sup>
- **Private health insurance** benefits represent 17% of total dental expenditure. This is net of private health rebates of ~\$600 million, or 6% of total dental expenditure
- **No update to the Federal Government's** proposed Child and Adult Public Dental Scheme (intended to replace the existing Child Dental Benefits Schedule) following the Federal Election in July

## Dentist Workforce

- There are **16,000 registered dentists** in Australia today, up from 14,000 four years ago<sup>2</sup>
- **Demographic shifts in the dental workforce** as the proportion of female dentists continues to increase and now represents approximately 50% of the total. This trend is expected to continue with females accounting for approximately 60% of dental graduates today
- This has coincided with a **higher proportion of dentists working part-time** and increased demand for more flexible working conditions, both supportive of the Pacific Smiles service model

Notes:

1. AIHW 2013-14 Health Expenditure

2. Dental Board of Australia Statistics as of 31 March 2016

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# TRADING UPDATE AND OUTLOOK

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- Reaffirming guidance for FY17 issued in August 2016
- EBITDA for FY17 expected to be in the range of \$21.7 million to \$23.2 million, representing growth of between 10% to 18% compared with FY16 EBITDA (underlying)
- Same centre patient fees growth of at least 5% is expected for FY17
- After a flat start to FY17, same centre growth has improved. YTD<sup>1</sup> same centre patient fees have grown by 4%. YTD same centre growth excluding the former DEP centres at Parramatta and Town Hall is 5%
- At least 10 new dental centres to be opened in FY17, with a skew towards H2 FY17. 2 new centres have opened to date in FY17
- Strong pipeline of new centre opportunities, with 3 new centres currently under construction and a further 1 committed. Plans to secure a number of other sites under consideration are well advanced
- Management continues to execute on the roll-out strategy and estimates the long term network potential is at least 250 dental centres
- Dividend policy unchanged, with a pay-out ratio in the range of 80-90% of NPAT for FY17

<sup>1</sup> YTD refers to management information on trading to 13 November 2016



## FORMAL AGM BUSINESS

# ROBERT CAMERON AO

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# FORMAL AGM AGENDA



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- 1. MINUTES OF 2015 ANNUAL GENERAL MEETING**
  - 2. FINANCIAL STATEMENTS AND REPORTS**
  - 3. RESOLUTIONS**
  - 4. OTHER BUSINESS**

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expressions within the meaning of securities laws of applicable jurisdictions. Indications of, and guidance on, future earnings or financial position or performance are also forward looking statements.

Forward looking statements involve inherent risks and uncertainties, both general and specific, and there is a risk that such predictions, forecasts, projections and other forward looking statements will not be achieved. Forward looking statements are provided as a general guide only, and should not be relied on as an indication or guarantee of future performance. Forward looking statements involve known and unknown risks, uncertainty and other factors, and may involve significant elements of subjective judgment and assumptions as to future events which may or may not prove to be correct, which can cause Pacific Smiles' actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward looking statements and many of these factors are outside the control of Pacific Smiles. As such, undue reliance should not be placed on any forward looking statement. Past performance is not a guide to future performance and no representation or warranty is made by any person as to the likelihood of achievement or reasonableness of any forward looking statements, forecast financial information or other forecast. Nothing contained in this presentation nor any information made available to you is, or shall be relied upon as, a promise, representation, warranty or guarantee as to the past, present or the future performance of Pacific Smiles. Pacific Smiles does not undertake any obligation to update or review any forward-looking statements (other than to the extent required by applicable law).

## Pro forma financial information

Pacific Smiles uses certain measures to manage and report on its business that are not recognised under Australian Accounting Standards. These measures are referred to as non-IFRS financial information.

Pacific Smiles considers that this non-IFRS financial information is important to assist in evaluating Pacific Smiles' performance. The information is presented to assist in making appropriate comparisons with prior periods and to assess the operating performance of the business. For a reconciliation of the non-IFRS financial information contained in this presentation to IFRS-compliant comparative information, refer to the Appendices of this presentation.

All dollar values are in Australian dollars (A\$) unless otherwise stated.

A number of figures, amounts, percentages, estimates, calculations of value and fractions in this presentation are subject to the effect of rounding. Accordingly, the actual calculation of these figures may differ from the figures set out in this presentation.





**THANK YOU**