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30 May 2017

ASX ANNOUNCEMENT

Pacific Smiles Group Limited (ASX:PSQ)

TRADING UPDATE

Pacific Smiles Group Limited (ASX: PSQ) provides the following trading update.

- Trading has been softer than expected in April and May. Same Centre Patient Fee growth is 3.8% year to date, compared to guidance of at least 5%.
- There is no single dental centre cohort or geographic region standing out as the main contributor to the shortfall.
- Changes to the arrangements PSQ has with nib which were effective from 1 April 2017 (in particular the cessation of no-gap offers at Pacific Smiles Dental branded centres and enhanced support from nib for no-gap offers at nib branded centres) have created some bring forward activity in 3Q17 and subsequent reduction in activity from nib members in 4Q17.
- The quantum and timing of new centre openings remains a key driver of short term earnings. FY2017 new centre openings are expected to total 12 compared to guidance of “at least 10”. While a positive development for the business, each additional new centre is dilutive to EBITDA in the first 6 months of operation. PSQ opened 4 new centres in 1H17 and expects to open a further 8 in 2H17, including 1 nib Dental Care Centre in the month of June.
- PSQ is revising its full year guidance as follows:

Guidance	Prior FY 2017 Guidance	Revised FY 2017 Guidance
Same Centre Patient Fees	>5%	> 3%
EBITDA (Underlying) ¹	\$21.7m – \$23.2m	\$20.4m – \$21.0m
New Centre Openings	>10	12

¹ Excluding one-off severance expenses of \$0.4m

The Board believes the following additional disclosure is useful to understand the underlying performance of the business:

Same Centre Patient Fee Growth	FY 2016	FY 2017 YTD¹	FY 2017 YTD % Total
Opened FY10 and older	3.8%	2.2%	68%
Opened FY11 and younger	19.2%	15.1%	32%
Total Group (excluding DEP acquisitions) ²	7.2%	6.0%	100%
Total Group	5.0%	3.8%	

^{1.} From 1 July 2016 to 26 May 2017

^{2.} Excludes the two former DEP centres located in Parramatta and Town Hall acquired from Medibank. Centres opened in FY 2015 are not included in same centre growth in FY 2016

EBITDA Impact of New Centres Opened	FY 2016	FY 2017F
Centres opened within last 24 months	17	21
EBITDA contribution	(\$1.0m)	(\$1.2m)

FY2018 Outlook

Notwithstanding the trading conditions currently being experienced, PSQ's new centre rollout plans remain on track.

The solid performance of new centres opened has provided the confidence to target at least 10 new centres for FY18. This includes opportunities to expand the nib Dental Care Centre network to provide access for nib customers to their no-gap check-ups from more locations. A new nib dental centre is planned for the Hunter Valley in 1H18.

This pace of roll-out of new centre openings, while continuing to dilute earnings in the short term, provides a compelling opportunity to grow earnings over the medium to long term. As an indication of the impact of acceleration in new centre rollouts, at 30 June 2017 the proportion of PSQ's total dental centres which are less than 3 years old is expected to be 42% compared to 37% as at 30 June 2015.

In addition to new centre openings, PSQ continues to expand capacity at existing centres to meet demand. We are currently commissioning an additional 5 surgeries in existing dental centres and we are expanding our successful Pacific Smiles Dental Centre at Westfield Northlakes in Queensland.

PSQ will report full year results on 18 August and will issue FY18 guidance on that date. Current expectations are:

- Patient Fee growth of 10% - 15% and EBITDA growth of approximately 10%; and
- At least 10 new centres opened; and
- Corporate overhead expenses to grow at least in line with Patient Fees, with likely increased investment in training of staff and dentists, information technology and other enablers of accelerated rollout to take advantage of the long-term growth opportunity.

PSQ's long term growth strategy remains unchanged with a target of opening at least 250 dental centres in Australia, predominantly via organic rollout rather than the acquisition of existing dental practices.

INVESTOR CONFERENCE CALL

Pacific Smiles management will host a discussion of the trading update via a conference call at 11.00 am AEDT, 30 May 2017.

To access the call at the nominated time, please use the details below.

Conference Call Access Number: 1800 857 029

Conference ID: 98001142#

For further information, please contact:

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END ANNOUNCEMENT



Pacific Smiles Group Investor Update

Presented by:

John Gibbs

Managing Director & Chief Executive Officer

Allanna Ryan

Acting Chief Financial Officer

30 May 2017

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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.

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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.

AGENDA

-
- 1. INTRODUCTION**
 - 2. GROWTH STRATEGY**
 - 3. DENTAL INDUSTRY**
 - 4. FINANCIAL PERFORMANCE**

SECTION 1

INTRODUCTION



BUSINESS OVERVIEW

- Founded in 2003, Pacific Smiles is a leading Australian branded dental group, operating 70¹ dental centres containing more than 250 active dental chairs
- Achieves industry leading consistency across operations, facility design and dental centre positioning
- Pacific Smiles provides dentists with fully serviced and equipped facilities, including support staff, materials, marketing and administrative services – enabling dentists to maximise time treating patients
- Dentists offer a range of general, family and cosmetic dental treatments including dental implants and a range of specialist services including orthodontics
- Over 350 dentists and approximately 800 staff servicing nearly 600,000 patient appointments each year
- The Group has experienced strong historical growth and in H1FY17 achieved \$73.6 million in Patient Fees and \$10.7 million EBITDA



Note:

1. Pacific Smiles Campbelltown opening 31 May 2017, nib Dental Erina opening 28 June 2017

FOUNDING PRINCIPLE



Traditional model

Dentist performs clinical AND operational AND ownership roles



Pacific Smiles model

Dentist performs clinical role



FOUNDATIONS FOR LONG TERM GROWTH

Large market opportunity

- \$9 billion Australian dental market which is highly fragmented
- At least 250 potential trade areas compared to current network

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”
- Strong post visit survey results (Net Promoter Score of >70)

Strong financial performance

- Long term EBITDA¹ compound annual growth of 21% per annum
- Return on Invested Capital ~ 50%

Accomplished leadership team

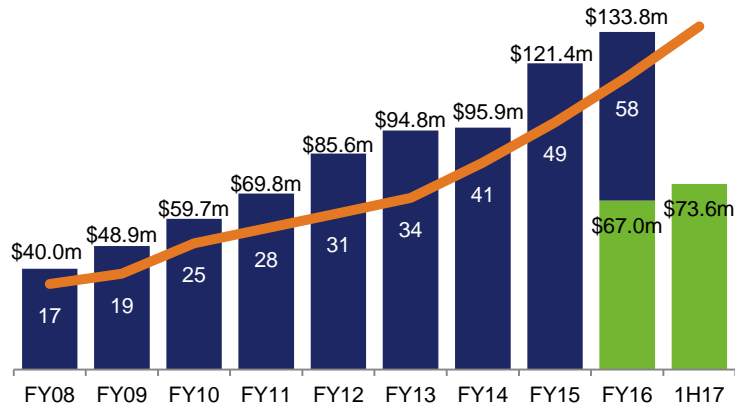
- Experienced core senior leadership team
- Founders continue to be highly engaged with the business in management and clinical governance capacities

Note:

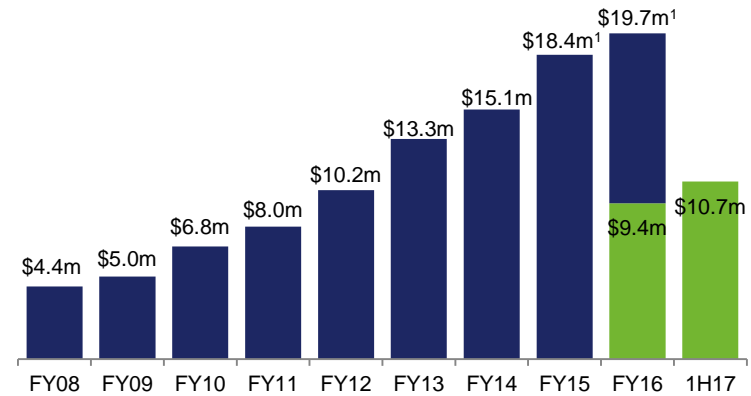
1. EBITDA expressed on an underlying basis for FY08 to FY16

HISTORY OF STRONG FINANCIAL PERFORMANCE

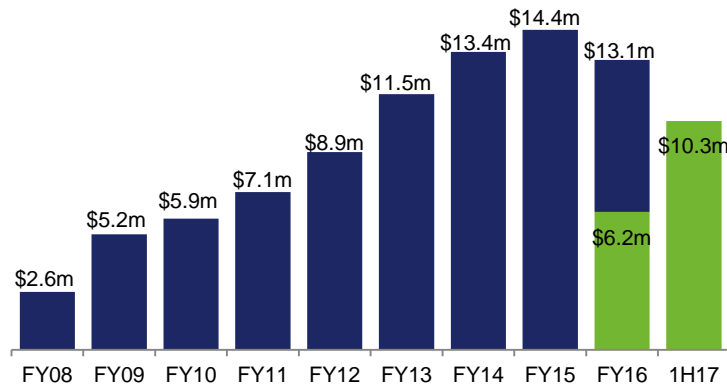
Patient Fees and Number of Centres



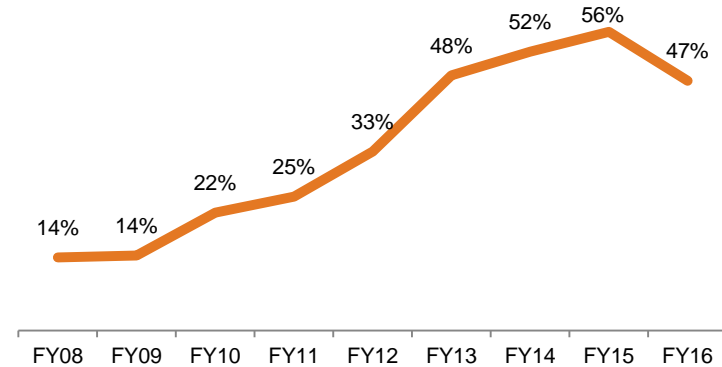
EBITDA



Operating Cashflow



Return on Invested Capital (EBIT)



Note
1. Underlying EBITDA excluding once-off costs

DENTAL CENTRE NETWORK

Currently 70¹ dental centres in total, of which 62 are branded Pacific Smiles Dental and 8 are branded nib Dental Care Centre



Queensland	
Bribie Island	Morayfield
Brisbane CBD	Mt Ommaney
Browns Plains	Mt Gravatt
Burleigh Heads	North Lakes
Capalaba	Redbank Plains
Deception Bay	Strathpine
Helensvale	
New South Wales	
Belmont	Morisset
Belrose	Narellan
Bateau Bay	nib North Parramatta
Blacktown	Parramatta
Brookvale	Penrith
Campbelltown (opening 31 May)	Queanbeyan
Charlestown	Nowra
nib Chatswood	nib Newcastle
Erina	Rutherford
nib Erina (opening 28 June)	Salamander Bay
Forster	Singleton
Gladesville	nib Sydney
Greenhills	Toronto
nib Glendale	Town Hall
Jesmond	Tuggerah
Kotara	Wagga Wagga
Lake Haven	Warilla
Marrickville	nib Wollongong
Australian Capital Territory	
Belconnen	Tuggeranong
Manuka	Woden
Victoria	
Bairnsdale	Point Cook
Bendigo	Ringwood
Cranbourne Park	Sale
Drysdale	Torquay
Melbourne	Traralgon
nib Melbourne	Warragul
Melton	Waurm Ponds
Mill Park	Werribee
Mulgrave	

Note:

1. Pacific Smiles Campbelltown opening 31 May 2017, nib Dental Erina opening 28 June 2017

SECTION 2

GROWTH STRATEGY

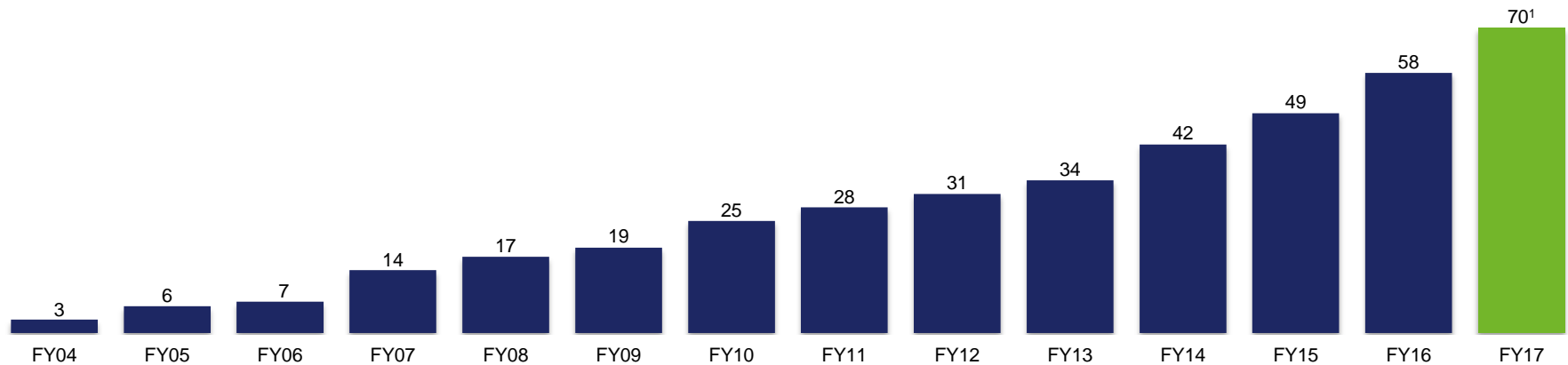


PacificSmiles
DENTAL.

Open 6 days

GROWTH FROM NEW CENTRE ROLLOUT

Significant organic rollout opportunity



- Pacific Smiles has grown strongly from 3 centres in 2003 to 70¹ centres currently
- New centre rollout rate has been accelerating, with 8 new centres in FY15, 9 in FY16 and 12¹ in FY17
- Targeting at least 10 new centres each year
- Executing national network plan
- Long term network potential of at least 250 dental centres

Note:

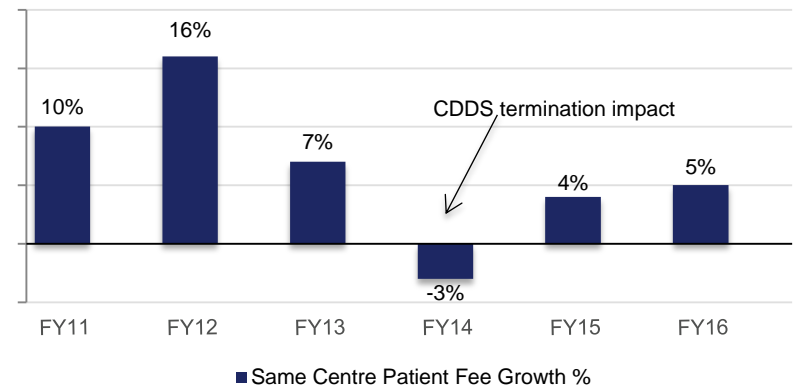
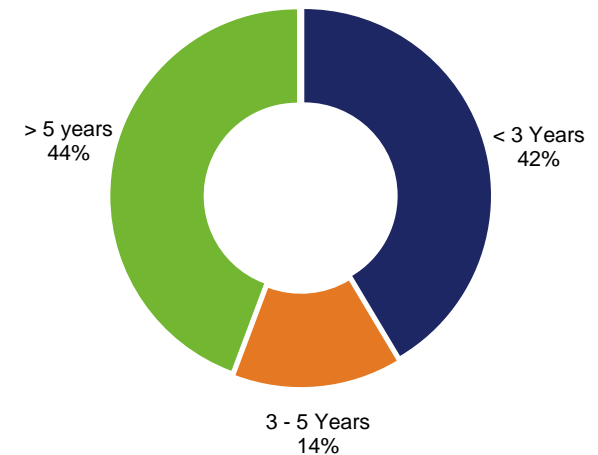
1. Pacific Smiles Campbelltown opening 31 May 2017, nib Dental Erina opening 28 June 2017

GROWTH FROM EXISTING CENTRES

History of strong “same centre” patient fees growth as centres mature

- As a result of rapid growth, the dental centre network includes a significant proportion of “immature” centres
- 42% of centres are less than 3 years old¹
- Average same centre patient fees growth of 5.8% pa over the five years to 30 June 2016
- Network today is 268 active dental chairs, and a capacity for a further 90 surgeries which can be commissioned to meet future demand
- Strategies to increase same centre patient fees growth include:
 - Marketing initiatives to build brand awareness to attract new patients
 - Patient engagement focus to promote regular attendances and loyalty
 - Expand range of services

Centre maturity profile
(years opened)



SECTION 3

DENTAL INDUSTRY



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 2014¹
- **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 medical¹. **Child Dental Benefits Schedule** provides Federal Government funding of up to \$1,000 every two years for approximately 3 million children in Family Tax Benefit Part A households. **National Partnership Arrangements** provide approximately \$100m per year to States and Territories to assist them in providing dental services to adults.
- **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. Private health insurers seeking ways to minimise claims inflation, but note the importance of regular dental attendances.

Dentist Workforce

- There are approximately almost **17,000 registered dentists** in Australia today, up from 15,000 four years ago²
- **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

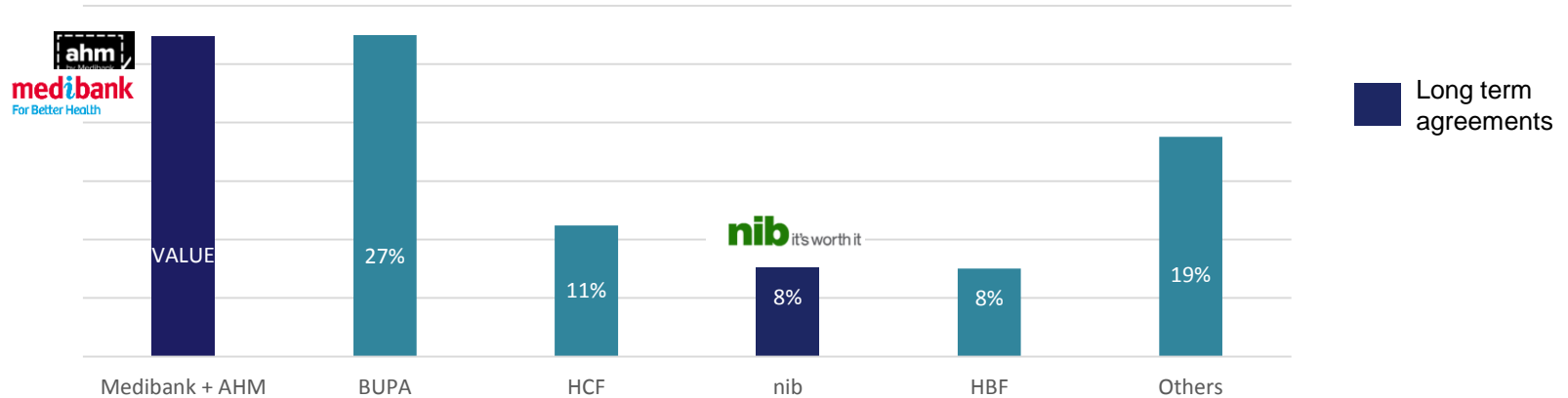
Notes:

1. AIHW 2013-14 Health Expenditure

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

UPDATE ON STRATEGIC PHI RELATIONSHIPS

Private health insurers by national market share



- Approximately 70% of the patient fees generated across the Pacific Smiles network are from patients who present with some level of ancillary private health insurance
- Most dentists practising from Pacific Smiles centres currently have Preferred Provider Agreements in place with PHIs representing approximately 75% of the industry by market share
- Pacific Smiles has long term strategic collaboration agreements in place with nib, Medibank and ahm, being approximately 35% market share nationally
- With effect from 1 April 2017, dentists practising from our centres have joined nib's First Choice preferred providers network and we expect to benefit from greater exposure via nib's marketing of this network. There has been a small reduction in some fees to align to First Choice fees and the official nib "no gap" check-up is now exclusively available at nib Dental Care Centres (owned and operated by Pacific Smiles)

SECTION 4

FINANCIAL PERFORMANCE



FY2017 TRADING UPDATE

- Trading has been softer than expected in April and May, with YTD same centre patient fee growth of 3.8%, compared to guidance of at least 5%
- There is no single dental centre cohort or geographic region standing out as the main contributor to the shortfall
- Changes to the arrangements between Pacific Smiles and nib effective 1 April, has created some bring forward activity in 3Q17 and subsequent reduction in activity in 4Q17
- FY2017 new centre openings are expected to total 12 compared to guidance of at least 10. Of the 12, a total of 8 will open in 2H17, including 1 new nib Dental Care Centre in June
- As a result of the above factors, PSQ is revising its full year 2017 guidance as per the table on the right
- The tables on the following slide provide additional disclosure to assist in understanding how the underlying business is performing

Guidance	Prior FY2017 Guidance	Revised FY2017 Guidance
Same Centre Patient Fees	>5%	>3%
EBITDA (Underlying) ¹	\$21.7m – \$23.2m	\$20.4m – \$21.0m
New Centre Openings	>10	12

Notes:

1. Excluding one-off severance expenses of \$0.4m

FY2017 TRADING UPDATE SUPPLEMENTARY DISCLOSURE

- PSQ's less mature centres continue to show strong positive growth as evidenced by the 15.1% growth in centres opened from FY2011 to FY2015 inclusive. This cohort represents 32% of Group (ex DEP) same centre patient fees for YTD FY2017
- The former DEP centres in Parramatta and Town Hall continue to have a material drag on same centre patient fee growth in FY2017
- Excluding these centres, same centre growth is 6% YTD
- As an illustration of the impact of accelerated new centre openings, EBITDA losses from new centres opened in a trailing 24 month period, have increased from \$1.0m in FY2016 to \$1.2m in FY2017 YTD

Same Centre Patient Fee Growth	FY 2016	FY 2017 YTD ¹	FY 2017 YTD % Total
Opened FY10 and older	3.8%	2.2%	68%
Opened FY11 and younger	19.2%	15.1%	32%
Total Group (excluding DEP acquisitions) ²	7.2%	6.0%	100%
Total Group	5.0%	3.8%	

EBITDA Impact of New Centres Opened	FY 2016	FY 2017F
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EBITDA contribution	(\$1.0m)	(\$1.2m)

Notes:

1. From 1 July 2016 to 26 May 2017
2. Excludes the two former DEP centres located in Parramatta and Town Hall acquired from Medibank. Centres opened in FY 2015 are not included in same centre growth in FY 2016

FY2018 OUTLOOK

-
- Notwithstanding the trading conditions currently being experienced, PSQ's new centre rollout opportunity remain on track
 - The solid performance of new centres opened has provided the confidence to target at least 10 new centres for FY2018, including opportunities for new nib Dental Care Centres
 - The pace of new centre openings, while continuing to dilute earnings in the short term, provides a compelling opportunity to grow earnings over the medium to long term
 - As an indication of the impact of accelerated new centre rollout, at 30 June 2017 the proportion of PSQ's total dental centres which will be less than 3 years old is expected to be 42% compared to 37% as at 30 June 2015
 - Current expectations for FY2018 are:
 - Patient fee growth of 10% - 15% and EBITDA growth of at least 10%; and
 - At least 10 new centres opened; and
 - Corporate overhead investments to grow at least in line with Patient Fees, with likely increased investment in training of staff and dentists, information technology and other enablers of accelerated rollout to take advantage of the long term growth opportunity;
 - PSQ will report FY2017 results on 18 August and will provide an update on the FY2018 outlook at that time

THANK YOU

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