

Dear Shareholders,

More services delivered to more patients. Better safety and cost control than ever before. Big increase in Same Store Sales. Excellent financial results. Record interim dividend.

That's the brief summary of the first half of the 2021 financial year.

At year-end in June 2020 we were hopeful that our response to the COVID-19 disruptions would get our business back on track. At the beginning of this current year we saw positive signs that our response to the new operating environment was working. Half way through the year we have a business which is operating at a new level.

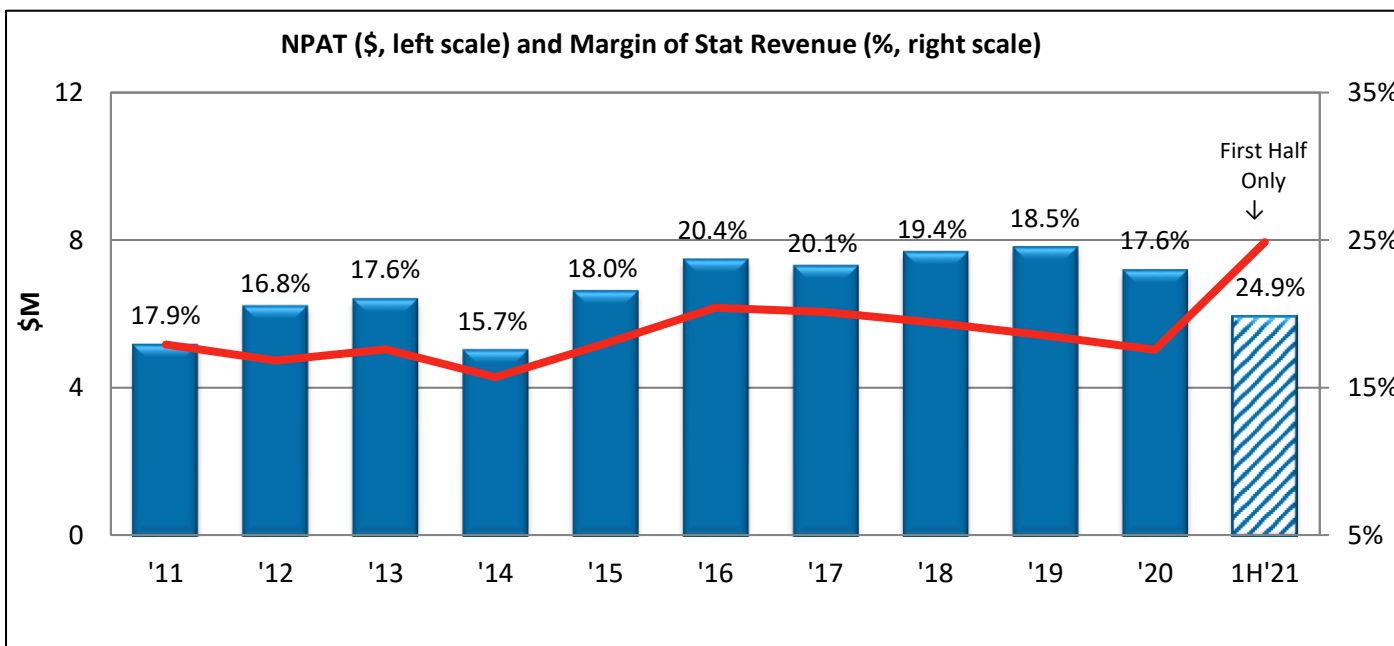
1300SMILES has always been fierce in its pursuit of incremental improvement. Over the years we have implemented thousands of changes, big and small, to improve services to our dentists and patients while controlling expenses and improving returns to shareholders. The pursuit of constant improvement is at the core of everything we do.

I'm proud to report that in the first half of the current year this constant improvement accelerated to a remarkable degree. This shows up in many of the key measures we use to track our performance. Among these good figures, shareholders are likely to appreciate that both Net Profit After Tax and Earnings per Share are up by 35%.

This first year of COVID-19 spurred us along in ways that have equipped us to deliver more services to more patients than ever before, all while maintaining the highest safety standards and controlling costs. Our head office and practice-level staff have worked tirelessly through this trying time and they have delivered brilliant results.

Financial Results for the half-year ended 31 December 2020

- Revenue (OTC) up 8% to \$34.8 million
- Revenue (Statutory) up 1% to \$23.8 million
- EBITDA up 17% to \$11.0 million
- NPBT up 34% to \$8.1 million
- NPAT up 35% to \$5.9 million
- Earnings Per Share up 35% to 25.0c
- Interim dividend up 9% to 14.5c
- Bank debt down 30% to \$10.5 million

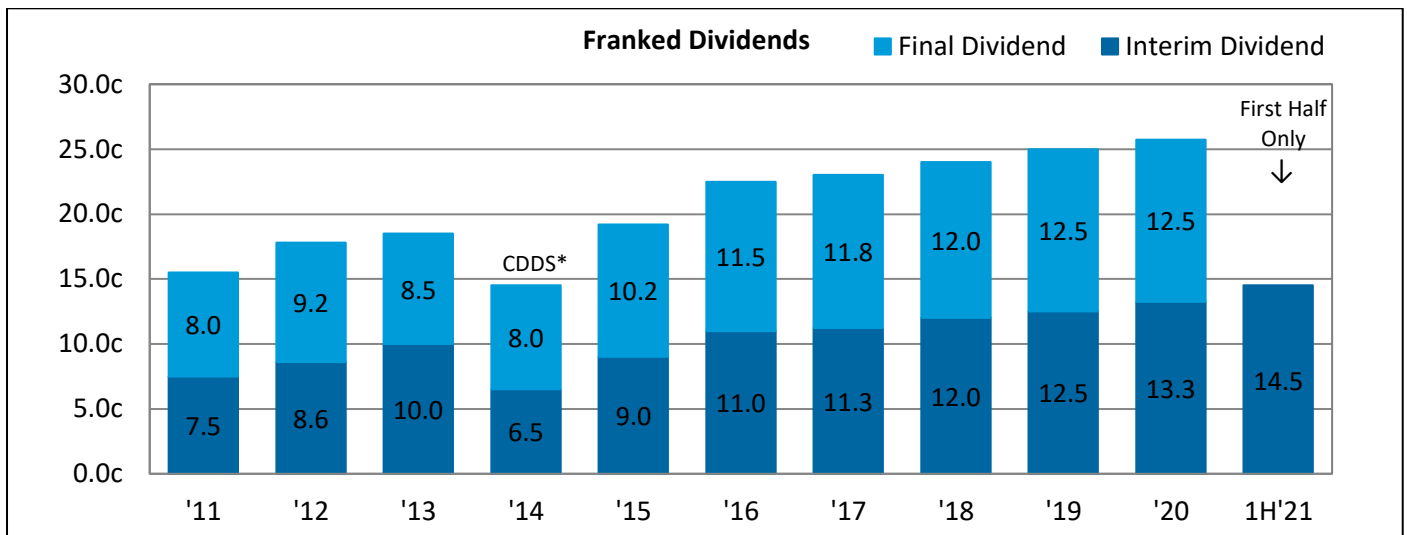


Net Profit After Tax, Earnings per Share & Dividend

The strong 35% growth in Net Profit After Tax delivered an equal 35% growth in earnings to a new record high at 25.0c per share. This is the single figure which reflects the sum of all of our efforts to grow revenue, control costs, and manage our capital properly.

Your board has, accordingly, increased the interim dividend to a record 14.5c per share. Shareholders will recall that we held the final dividend for 2020 steady despite the sharp COVID-19-induced drop in EPS. This was our way of signalling to shareholders that we believed the earnings dip was transitory, as it has indeed proved to be.

As always, we believe shareholders must be treated as the true owners of this business and we manage the dividend to reflect the experience of a business owner navigating good times and bad.



*Chronic Disease Dental Scheme (CDDS)

Statutory Revenue

Shareholders may notice that for a period which delivered such strong metrics, Statutory Revenue was up just 1% on the previous year's first half.

Statutory Revenue, alas, is an accounting construct which differs greatly from the common sense understanding of "revenue." Many elements go into the calculation of Statutory Revenue. In this case, Statutory Revenue in the previous year's first half was increased by a few items you might not consider revenue.

Most important to shareholders, the Dental Revenue portion of Statutory Revenue increased by 8% in 1H21 compared to the previous first half.

Other non-core elements of Statutory Revenue declined. These include:

- profit on disposal of assets: in the previous period, we booked a gain on the disposal of certain dental practices, something we do from time to time but not in every period.
- consulting revenue: this is not normally a core business, but it came into play in the previous year's first half in relation to one transaction.
- de-recognition of contingent consideration: it became apparent in 1H'20 that certain amounts set aside as probable obligations would not be required.

Same store sales

As in most years, 1300SMILES acquired additional practices during the year. Also, it is normal in most years to dispose of a small number of practices which no longer meet our performance standards or no longer serve as part of the best possible footprint for our business.

For this reason, the raw Revenue numbers reported can be affected by the number of practices generating that Revenue in a given year. This is what makes the Same Store Sales figure useful, as it reflects the progress of our business at locations established throughout the period.

In the first half of the 2021 year, our Same Store Sales increased by a solid 10%. Remember that in the first half of the previous year we had not yet heard of COVID-19, so that 10% increase comes in comparison to a normal period which delivered, at that time, record-high Revenue.

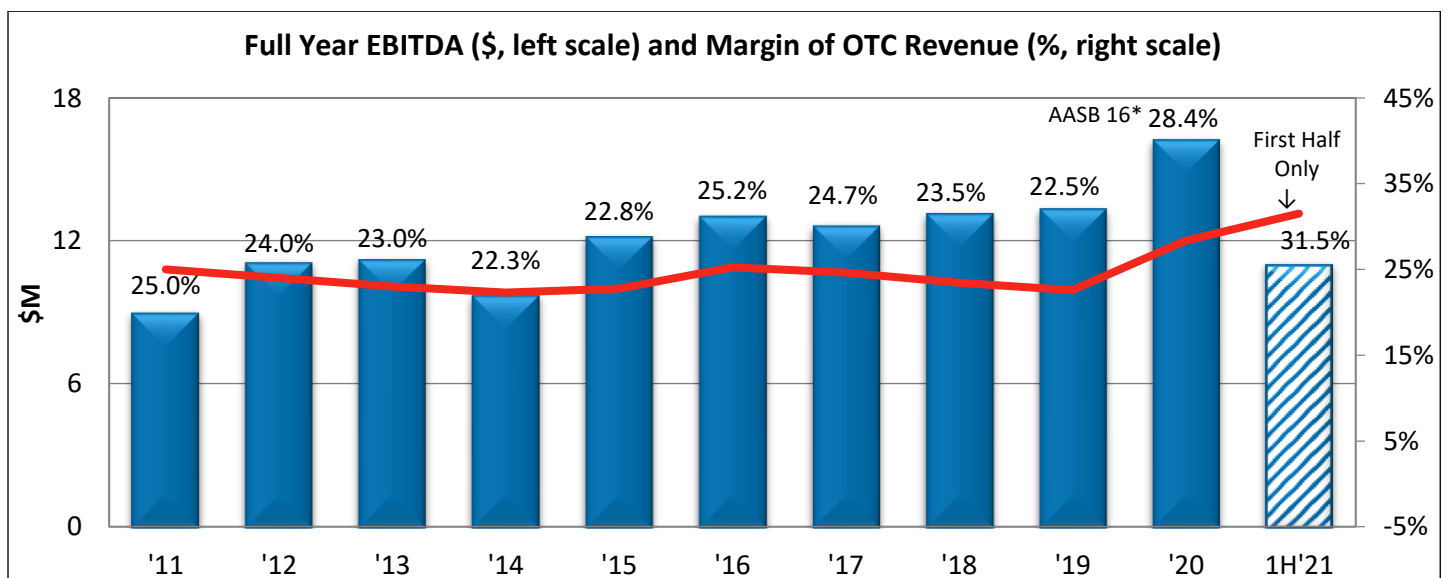
EBITDA

Earnings Before Interest, Tax, Depreciation, and Amortisation - this is a measure we report and explain in most periods because it gives a true measure of the quality of the operating business, excluding such things as the level of debt employed. EBITDA also enables the comparison of businesses across different industries.

In the first half of the 2021 year, our EBITDA was up a gratifying 17% to \$11.0 million. That increase summarises the effectiveness and efficiency of our business at every step. The starting point is solid Revenue, supported by efficient operations and cost control.

The accounting standard AASB-16 took effect with the 2020 financial year. This new standard changed the calculation of EBITDA significantly. This effect shows up in the chart below, in which EBITDA in the years prior to the 2020 year was calculated in accordance with the then-current standard. The figures shown for the 2020 and 2021 years are calculated under the new standard, so our presentations going forward will continue to show this step-change between 2019 and 2020.

Nevertheless, it is important to note that the 2021 figures to date are calculated on exactly the same basis as the figures from the previous year. In 1H21 we have seen a significant increase in both EBITDA and in EBITDA as a proportion of Revenue.



*AASB 16 Leases adopted in FY'20.

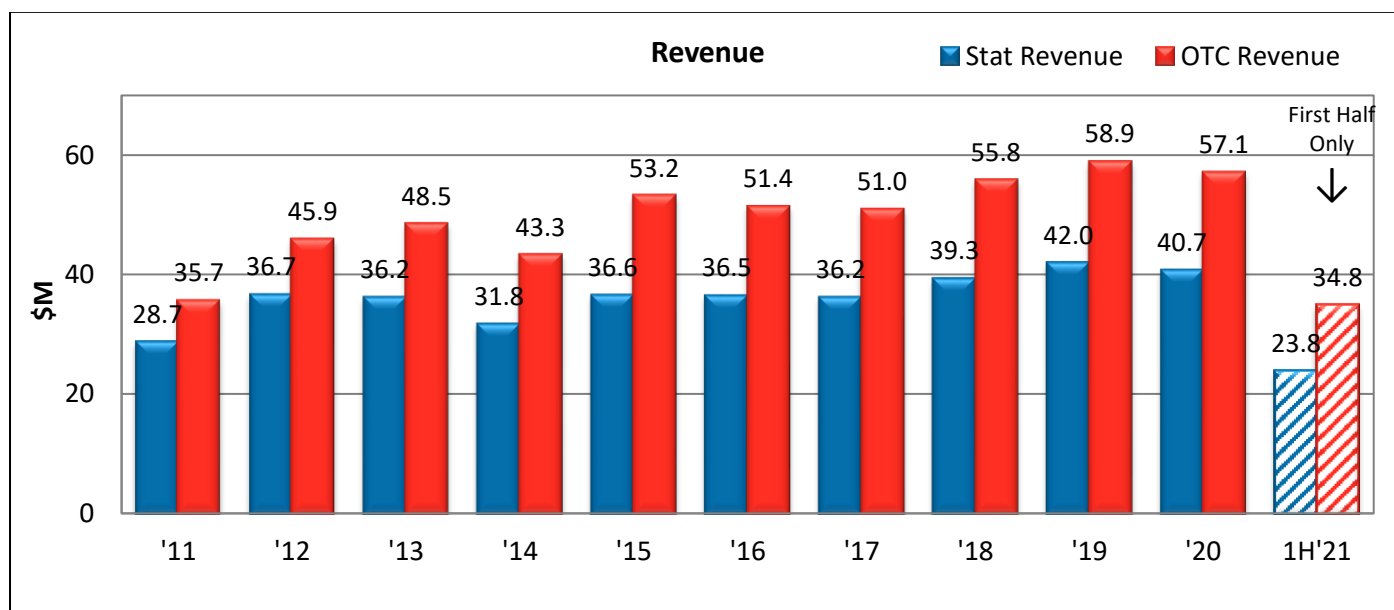
On-line booking

A significant contributor to both the Revenue and cost control is the greatly expanded use of our on-line booking system. From the pre-COVID-19 month of January 2020 to the most recent month of January 2021, the number of patient appointments booked on-line grew by 79% to 2,199.

We recognise that some of our patients still prefer to book by phone, and we look after these patients with the same friendly service as always. For many others, however, the past year is one in which people became more accustomed to doing things on-line, and this has become the first preference for many.

Statutory & OTC Revenue

The percentage increase in Over-the-Counter Revenue, at 8%, is significantly greater than the increase in our Statutory Revenue. As I have noted before, these two measures often differ widely from one period to the next. This variation is sometimes driven by the changing mix of contract dentists and employed dentists operating with the 1300SMILES system and sometimes by one-off inclusions in Statutory Revenue as mandated by the accounting standards. As always, it is our view that OTC Revenue gives a far better indication of the size of our business, as it measures the total amount of money paid by patients for services.



| Reconciliation of OTC Revenue (non-IFRS) to Statutory Revenue per (Financial Statements) | | | | | | | | | | | | | |
|--|------|------|------|------|------|------|------|------|------|------|------|------|-------|
| | '09 | '10 | '11 | '12 | '13 | '14 | 15 | 16 | 17 | 18 | 19 | 20 | 1H'21 |
| OTC Revenue (\$m) | 27.6 | 30.7 | 35.7 | 45.9 | 48.5 | 43.3 | 53.2 | 51.4 | 51.0 | 55.8 | 58.9 | 57.1 | 34.8 |
| Less amount retained by self-employed Dentists (\$m) | 5.3 | 6.8 | 6.9 | 9.2 | 12.3 | 11.5 | 16.6 | 14.9 | 14.8 | 16.5 | 17.0 | 16.4 | 11.0 |
| Statutory Revenue (\$m) | 22.4 | 23.9 | 28.7 | 36.7 | 36.2 | 31.8 | 36.6 | 36.5 | 36.2 | 39.3 | 42.0 | 40.7 | 23.8 |

“Stat Revenue” is the Revenue we report in our statutory accounts.

“Over-the-Counter (OTC) Revenue” is a measure which captures the full value paid by patients for all dental services rendered. OTC Revenue gives a clearer indication of the scale of our business. The difference is that Statutory Revenue excludes the portion of patient fees retained by self-employed dentists.

Thanks

Finally, as always, I note that our business only exists thanks to the support of our many patients throughout Australia. This support in turn results from the quality care provided by our dentists, dental support staff, and practice and business management teams – thank you to all of you; my admiration for your resilience, professionalism and care has grown even more this year. Finally, I thank our shareholders for your continuing support.

Dr Daryl Holmes OBE, B.D.Sc (Hons.)
Managing Director

Authorised for release to ASX by the 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, 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 recruitment@1300smiles.com.au or visit our website www.1300smiles.com.au/careers.