

Letter from the Managing Director

30 June 2021

Dear Shareholders,

This year, the business has continued to manage the challenges facing all of us from COVID-19. The business has been resilient with its staff and dentists needing to manage short term movement restrictions and the disruptions that this provides for availability, patient bookings and the need for re-bookings.

Through this period, 1300SMILES Limited has focused on ensuring the best quality care and service for its patients and they have responded with a strong focus on health.

Financial Results for the year ended 30 June 2021

- Revenue (OTC) up 15% to \$65.8 million
- Underlying EBITDA up 31% to \$15.2 million
- NPAT up 35% to \$9.6 million
- No Final dividend
- Revenue (Statutory) up 10% to \$44.9 million
- NPBT up 34% to \$13.1 million
- Earnings Per Share up 35% to 40.7c
- Bank debt down 11% to \$13.3 million

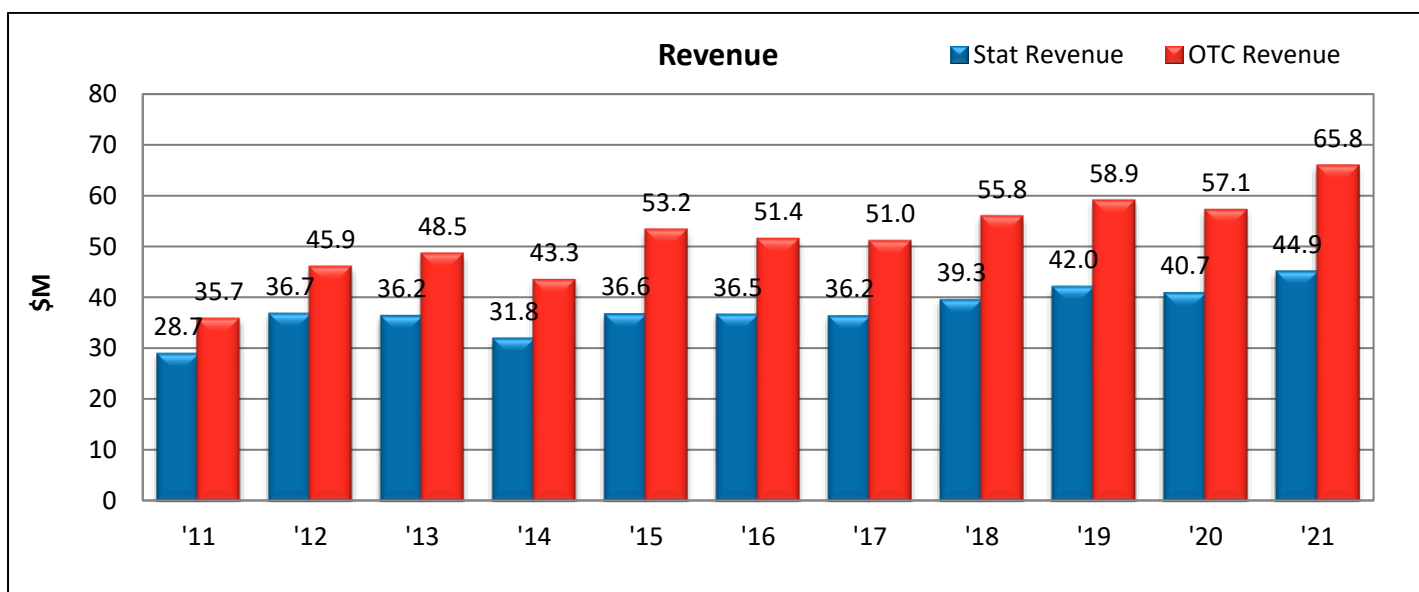
Scheme of Arrangement and dividend

As an event subsequent, 1300SMILES Limited has reached agreement with Abano Healthcare Ltd to propose for consideration of our shareholders of an acquisition of the Company by way of a Scheme of Arrangement. Details of the proposed acquisition is contained in a separate announcement released on the ASX.

Given the terms of the proposal, the company has determined that it will not declare a Final dividend for FY'21. The company intends to declare a fully franked Special Dividend prior to the implementation of the Scheme, which will enable shareholders to realise additional benefits of the Company's available franking credits.

Revenue

Over-the-counter Revenue grew by 15% from \$57.1 million in FY'20 to \$65.8 million in FY'21. This was a solid recovery from the extended lockdowns in FY'20. Statutory Revenue increased by 10% over the same period.



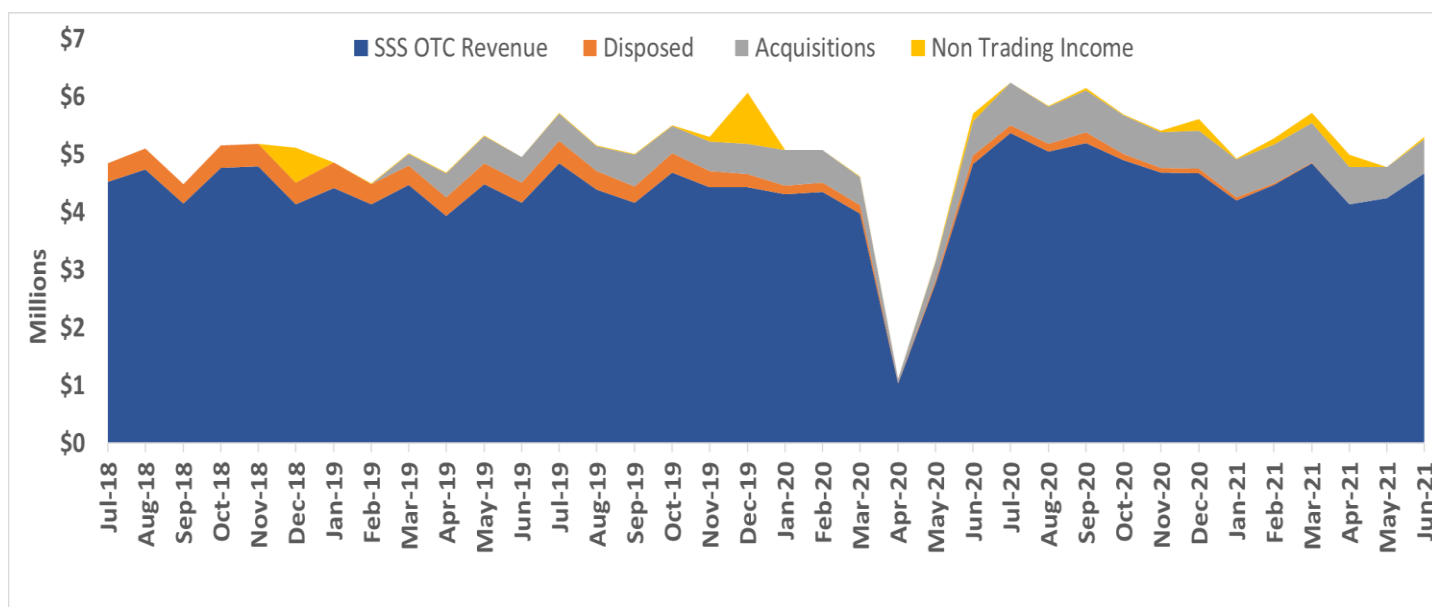
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Reconciliation of OTC Revenue (non-IFRS) to Statutory Revenue per (Financial Statements)													
	'09	'10	'11	'12	'13	'14	'15	'16	'17	'18	'19	'20	'21
OTC Revenue (\$m)	27.6	30.7	35.7	45.9	48.5	43.3	53.2	51.4	51.0	55.8	58.9	57.1	65.8
Less amount 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	20.8
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	44.9

Same Store Sales (SSS) 2019 - 2021

26 dental practices were in operation for the full year in both FY'19 and FY'20, revenue from these practices has been termed Same Store Sales (SSS). Same Stores Sales grew by 8% (\$4 million) in FY'21 over FY'19. In addition to these operations, 6 dental practices that existed in FY'19 were disposed of by 30 June 2021. Over the same period, an additional 6 were acquired. The monthly trend in OTC Revenue between FY'19 and FY'21 is shown below:



As reported in the 1H'21 results, revenue for the first six months of FY21 was at a record high. In the second half of FY21, revenue performance moderated reflecting both seasonality and the catch-up effect post lockdowns which benefited the first half.

Subsequent to the end of the financial year, 1300SMILES Limited settled the acquisition of a large, long-established, multi-surgery (4 chairs) dental practice in Chinchilla, west of Toowoomba in Queensland on the 1st of July 2021. The company has also undertaken due diligence and contracted to acquire an additional larger practice (>\$1.6 million revenue) in Bundaberg, making this its fourth therein. It is due to settle later in August 2021, the vendor dentist is committed to stay over the earnout period, as usual.

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EBITDA

Underlying Operating Earnings Before Interest, Tax, Depreciation, and Amortisation – increased by 31% from \$11.7 million in FY'20 to \$15.2 million in FY'21 because of the increase in revenue and improvement in productivity among practitioners and staff.

Comparison with FY'19

To allow comparison with FY'19, EBITDA has been adjusted to pre- AASB 16. Underlying EBITDA pre AASB 16 increased by 16% from \$10.5 million in FY'19 to \$12.2 million in FY'21.

	FY'21	FY'20	FY'19	Change 20 to 21	Change 19 to 20
Reported EBITDA	18,881	16,177	13,284	17%	42%
(-) JobKeeper receipt	(2,185)	(1,805)	-		
(-) Other one-off or non-operating revenue included in EBITDA	(788)	(1,823)	(1,133)		
(-) Other one-off or non-operating income included in EBITDA	(664)	(897)	(1,639)		
Underlying Operating EBITDA¹	15,244	11,652	10,512	31%	45%
(-) Rent not reflected in EBITDA because of AASB 16	(3,060)	(2,906)	-		
Underlying Operating EBITDA pre AASB 16¹	12,184	8,746	10,512	39%	16%

Thanks

Shareholders will soon need to consider their support for a very significant transaction. We look forward to providing information in due course to allow shareholders to fully consider the situation and make their decision.

Our company is built on the efforts of its dentists, the support staff, practice and business management teams, all of which have performed admirably this year. With your continued efforts, our brand and business have a bright and growing future.

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

¹ Underlying Operating EBITDA is useful as it removes significant items thereby facilitating a more representative comparison of financial performance between financial periods. Underlying EBITDA is a non-IFRS measure which is not subject to audit or review

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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 dentalcareers@1300smiles.com.au or visit our website www.1300smiles.com.au/careers.