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ASX ANNOUNCEMENT

17 August 2022

Pacific Smiles Group announces FY22 results

Results summary:

- Patient fees $226m, down 6% on prior corresponding period (FY21), reflecting COVID disruption and 10.1% decline in same-centre fee growth
- Group revenue $139.5m, down 8.9%
- Underlying[1] EBITDA $11.3m, down 65.9%
- 19 new centres opened, 127 Pacific Smiles centres at period end (up 16.5%)
- Underlying net loss of $3.2m, compared to net profit of $14.0m in FY21
- FY23 YTD performance suggests steady return to pre-Covid business volumes

Dentist service organisation Pacific Smiles Group (Pacific Smiles) (ASX: PSQ) today released its financial results for the 12 months ended 30 June 2022, reporting declines in revenue and underlying EBITDA compared to the prior period as Covid related interference materially disrupted dental centre operations.

The company reported an 8.9% decline in group revenue to $139.5m for the period from patient fees of $226m, which were down 6% on the previous year. This decline is attributed primarily to the impact of Covid-related lockdowns and outbreaks, which limited practitioner hours and patient attendance due to higher appointment cancellations and practitioner absences. Same-centre patient fees were down 10.1% for the period.

Underlying EBITDA was down 65.9% to $11.3m for the period, reflecting reduced patient fees against a largely fixed cost base as well as the $3.1m impact of net JobKeeper payments in FY21 that were not provided in FY22.

Pacific Smiles reported an underlying net loss of $3.2m for the period, compared to net profit of $14.0m in the prior period. No final or interim dividend was declared for FY22.

All Pacific Smiles centres were kept open during the year, both to maximise staff retention ahead of an expected rebound in demand and to support dentists who chose to continue to practice.

Nineteen new centres and four HBF-owned centres were opened, taking the total number of centres (excluding six HBF centres) to 127 as at period end. The company installed 72 new dental chairs during the year, including 15 in existing centres taking the total to 534 as at period end.

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[1] Underlying results excludes the impact of the Australian accounting standard (AASB 16)

While FY22 has been a challenging year, Pacific Smiles' network of dental centres are ideally positioned to capture the uplift in appointments from a rebound in demand as Covid effects recede in the wider economy.

The company reported positive same-centre revenue growth in November 2021, May 2022 and June 2022, when Covid-related lockdowns, restrictions and outbreaks were absent or receding.

Pacific Smiles Chief Executive Officer, Phil McKenzie, said: "Operating conditions in FY22 were clearly challenging in the face of Covid disruption, especially in our key markets of NSW and Victoria. While we were disciplined in managing staffing and costs, inevitably the Covid headwinds affected patient fees, EBITDA and profit for the year.

We made a conscious decision to keep all of our centres open during the pandemic and also continued to invest in new centres in excellent locations, well positioned within our network. The attendant labour costs associated with continuing to operate in a softer trading environment, along with the investment in new centres exacerbated the impact on earnings. However, it has also set the business up to be able to service the inevitable return of patients, many of whom have not been to the dentist during the pandemic, and more normalised operating schedules for dentists.

We are cautiously optimistic that the worst of the pandemic is behind us. Our centres are reporting signs of increasing demand for oral care in our key demographic of families with young children, which is encouraging," he said.

In February the company advised that Andrew Knott had been appointed to the Board as a non-executive director. Mr Knott had previously been US-based President - Verizon with global marketing services group Publicis Group and has held senior marketing and transformation roles with JP Morgan Chase & Co, National Australia Bank and McDonald's.

Business performance

Covid effects contributed to a 63.5% decline in the EBITDA to patient fees margin, from 13.7% to 5.0%. The combined effect of softer same-centre fees on a high proportion of fixed costs, the FY21 JobKeeper contribution, lower EBITDA from centres opened in FY21 and start-up losses associated with new centres in FY22, were a drag on the FY22 operating margin.

Net capital expenditure of $22.8m for the year was deployed mainly to new centres ($13.7m), technology upgrades ($3.5m), relocation and expansion of existing centres ($3.1m), as well as dental chairs, replacement of surgical equipment and centre refurbishments.

As at 30 June, borrowings had increased to $18.5m after existing facilities were drawn down to finance the rollout of new centres. Pacific Smiles has a strong balance sheet, with $21.5m of headroom available in its debt facilities and net assets of $69.8m (excluding the impact of AASB 16). Our debt facilities were extended for a further three years during the year.

By fiscal year end there were more than 850 dentists working from Pacific Smiles centres, with a retention rate above 85%. Patient satisfaction was high, with the company reporting a patient net promoter score above 85. Staff retention dipped slightly, attributed to Covid-related disruption.

In a key sustainability initiative, the company has committed to sourcing 25% renewable energy in 2023 from our direct energy contracts with retailers and to transitioning to FSC-certified packaging in procurement of dental consumables.

Outlook and guidance

In the fiscal year to date (up to and including 16 August) the company reported patient fees of $32.9m, year-on-year patient fee growth of 35.3% and same-centre fee growth of 28.4%.

The company has issued FY23 guidance, that in the absence of any deterioration in Covid-related disruption above current levels, it expects patient fees in the range of $270m to $285m and underlying EBITDA in the range of $24m to $27m.

Pacific Smiles expects to open five new centres and two new HBF Dental centres in FY23.

Mr McKenzie said: "Pacific Smiles' growth strategy centred on culture, operational excellence, innovation and network growth is on track. Year-to-date business performance indicates that business activity and volume is returning to pre-pandemic levels. We expect a return to growth in FY23 but at a more uniform rate and over a longer period than we saw in the post-lockdown surge in FY21. Our network and proposition geared to young families position the group well for a rebound in demand as conditions normalise.

"In the near term our focus is on lifting utilisation of capacity across the network of dental centres, while investing in the dentist, patient and employee experience as we pursue our long-term goal of reaching 250 dental centres and more than 800 dental chairs nationwide," he said.

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Investor presentation

Pacific Smiles will host a conference call for investors to discuss the half-year results at 11:00 am AEST, Wednesday 17 August. Pre-Registration Link: https://s1.c-conf.com/diamondpass/10024043-exr31s.html

Complete full-year results materials will be released to the ASX and will be available on the company website via the following link: http://investors.pacificsmilesgroup.com.au/Investors/.

Authorised for release by the Board of Directors.

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