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20 August 2020

ASX ANNOUNCEMENT

Pacific Smiles Group Limited – Full Year Results

Pacific Smiles Group Limited (ASX: PSQ) (“Pacific Smiles” or “the Company”) today announced its financial results for the full year ended 30 June 2020.

Key financial highlights

The key financial highlights from the results including the impact of COVID-19 include -

- For the 8 months to 29 February 2020, prior to COVID-19 restrictions, both patient fees and underlying EBITDA were tracking at approximately 14% growth on the prior corresponding period
- For the FY2020 period Patient Fees generated by the dental practitioners working at dental centres owned and operated by Pacific Smiles were \$186.3m, down 0.6% on the prior period
- Same centre Patient Fees contracted 4.5% for the period (1H20: up 9.4%, 2H20 down 18.2%)
- EBITDA (underlying) of \$23.5million¹, up 2.9% on the prior period
- NPAT (underlying) of \$8.1 million¹, down 9.7% on the prior period
- 5 new Pacific Smiles Dental centres opened in FY 2020, bringing the total to 94 centres as at 30 June 2020
- No final dividend was declared for FY 2020 (FY 2019: 3.5 cps)

Operational Update and Initiatives

In FY 2020, Pacific Smiles delivered over 767,000 patient appointments with a patient net promoter score of greater than 80%. We opened 5 new dental centres in Robina and Mitchelton in Queensland and Epping, Ocean Grove and Narre Warren in Victoria taking the network total to 94.

The first half of the financial year delivered strong underlying EBITDA growth of 15.0% and the opening of 4 new dental centres. Our Insight graduate program had a record number of applications and twenty new graduates began the program with Pacific Smiles Group this year, our biggest intake to date. We also launched the Pacific Smiles education experience node for University of Sydney final year dental students. This program was developed to broaden the student training program and provide experience in a private practice setting. The University of Sydney Dental School has been providing education and training in

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dentistry and oral health for over 100 years and we are proud to partner with the university to help shape the future of oral health care in Australia.

The third quarter of FY 2020 delivered the Australian market unforeseen health and business challenges with the impact of COVID-19. Pacific Smiles' proven business processes, system and protocols for servicing dentists and caring for patients and each other enabled us to successfully manage through the crisis and stand the business back up efficiently and effectively, once restrictions eased in May.

Over 600 dentists were actively supported by PSG during the peak of the COVID-19 pandemic in Australia. Restrictions on dental practices changed on multiple occasions and it was important for us to guide practitioners in complying with the guidelines put forward by the Australian Dental Association and enforced by the Australian Health Protection Principle Committee (AHPPC). In doing so, practitioners were able to continue to assist patients needing care during the pandemic, both face to face and via teledentistry, with the safety of the patients and the dental team top of mind.

The fourth quarter was about leading out of the disruption and uncertainty with agility. Our commitment to expanding services to patients was demonstrated with the opening of a new dental centre in Narre Warren Victoria, and we triaged over 8,000 patient enquiries.

The long term plan remains simple and focused on growing the core business through our unique greenfields centre expansion program; the goal of more than 250 centres and 800 chairs is unchanged.

We will continue to make decisions with a long-term view consistent with our known success factors and capitalising on technology innovations. The dedication and discipline of the entire team, focused equally on execution today and the long-term performance objectives of the business, will ensure prosperity.

Business Performance

Underlying EBITDA, exclusive of the impacts of AASB 16, increased by 2.9% to \$23.5 million compared with the prior period.

On 30 March 2020 the Australian Health Protection Principle Committee (AHPPC) mandated Level 3 restrictions to dental services. This resulted in 76 dental centres closing for a period of 4 weeks, and a large proportion of our workforce being stood down during this time. The centres which remained open were selected due to the role they played as regional "hubs" to continue to offer emergency care within their communities.

Restrictions were eased to Level 2 on 24 April and returned to normal dental services (with COVID-19 precautions) from 11 May. At this time all centres re-opened and employees were stood back up to support patient volumes. Our ability to be operationally agile throughout this period lead to strong patient volumes in June with same centre patient fee growth for the month of 12.4%.

Underlying NPAT¹ decreased by 9.7% to \$8.1 million compared to \$8.9 million for the prior year.

To reduce the cost base and preserve cash during the nationwide restrictions, the Chief Executive Officer and Executive Leadership team salaries and Non-Executive Director fees were reduced for a period of time. Short term incentive bonuses were not paid this year, notwithstanding that prior to COVID-19 management were on target to achieve the targets for 2020. Executive team salaries were reinstated in recognition of the workload required to support the business to rapidly scale at the conclusion of the restrictions.

A cost reduction program was implemented in late March 2020 to review and negotiate savings with key suppliers and landlords. We were able to negotiate approximately \$1m in abatements and deferrals with the vast majority of landlords.

Pacific Smiles successfully applied for the Government's JobKeeper program and was eligible from 1 April 2020. In FY 2020 the Company is entitled to \$8.4 million for its eligible employees.

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Depreciation costs (excluding the impact of AASB 16) totalled \$11.0 million an increase of \$1.6 million on the prior period.

Capital expenditure for the year was lower at \$10.0 million (FY 2019: \$16.5 million), reflecting a spending pause during March to May 2020. It includes 5 new centres, additional chairs in existing centres, automated sterilisation systems and the bulk purchase of dental chairs.

Pacific Smile's strong focus on cash management resulted in net debt of \$6.7 million as at 30 June 2020. In order to maximise financial flexibility in the current environment, the Group secured an additional debt facility of \$10.0 million in August 2020. This takes the overall debt facility to \$40.0 million and gives Pacific Smiles significant capacity should there be future COVID-19 mandated restriction periods in 2021, as well as focusing on the long-term growth strategy of dental centre rollouts.

Impacts of AASB 16 Leases

AASB 16 is the new accounting standard which changes the treatment of leases and impacts businesses with a large leased property portfolio such as Pacific Smiles. It brings property leases on-balance sheet with a lease liability representing the lease payment obligations. The new standard resulted in the Group recognising depreciation and interest costs, instead of operating lease expenses. This increased EBITDA by \$11.7 million and reduced NPAT by \$0.1 million due to increased depreciation, interest and tax expense, offset by a reduction in operating lease expense. Given the application of the standard is not retrospective, the full year results presentation has been prepared excluding the impacts of AASB 16 to assist with comparability to the prior reporting period. A reconciliation to the statutory results is included in the appendix to the results presentation.

Dividend

FY 2020 dividend payout ratio of 46%, interim dividend of 2.4cps. No final dividend declared.

Trading Update and Outlook

Momentum into FY 2021

- Strong same centre patient fee growth in June of 12.4% and July of 13.5% compared to pcp following lifting of government mandated restrictions in May
- 1 new centre already opened, a further 9 sites committed for FY 2021
- All Melbourne metro dental centres operational under Level 3 government mandated restrictions, but at reduced opening hours and emergency procedures only
- Same Centre Patient Fee growth tracking at approximately 10.6% YTD at 18th August 2020 (excluding VIC tracking at approximately 19.6% YTD)

Pacific Smiles provides the following update regarding the outlook for FY 2021: -

- We expect Patient Fees of approximately 15% growth and EBITDA (underlying) of approximately 15% growth YOY, assuming:
 - JobKeeper benefits are included for Q1 FY2021, offsetting expected COVID-19 related underperformance
 - H1 FY2021 experiencing mandated restrictions in Victoria and a continuation of current trends in other markets

- H2 FY2021 trading without significant COVID-19 disruptions
- The opening of approximately 10 new dental centres

To assist investors in understanding how our business is trading through this period of COVID-19 disruption, within a week of each month end we will announce our total patient fee growth and same centre patient fee growth for the prior month. We will continue to do this while COVID-19 is causing significant disruption.

Investor conference call

Pacific Smiles will host a conference call for investors to discuss the results.

Date: 20 August 2020

Time: 11.00am AEST

Dial-in number: +61 2 8038 5221

Password: 6261747

Further information and enquiries

Complete half 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/> or for further information, please contact:

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