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ASX ANNOUNCEMENT
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FY23 Result
Operating efficiency drives earnings, deleveraging & higher full year dividend

Dentist service organisation Pacific Smiles Group (ASX: PSQ) today released its financial results for the 12 months ended 30 June 2023. The Group has emerged strongly from the pandemic, with a core strategic focus on increasing chair utilisation and improving operational efficiency. The outcome of this effort has delivered strong revenue growth and improved labour productivity, which has resulted in significant debt reduction and enabled the resumption of the final dividend.

FY23 Results Summary:

- **Patient Fees of $270.5m,** up 19.5% vs pcp
- **Same Centre Patient Fee growth of 14.9%** vs -10.1% in the pcp
- **Group Revenue of $165.3m**, up 18.5% vs pcp
- **Underlying[1] EBITDA of $24.1m**, up 113.9% vs pcp
- **Underlying[1] NPAT of $4.5m**, up from a Net Loss of $3.2m in the pcp
- **Net Cash of $9.6m at end-June 2023**, vs Net Debt of $6.7m in the pcp
- **Final Dividend (fully franked) of 2.27cps** declared, for a Total Dividend of 2.62cps in FY23 representing a payout ratio of 100% of Underlying NPAT
- **Total Pacific Smiles centres of 130**, with four new centres opened in FY23
- **FY24 YTD performance indicates continued growth** across key operating and financial metrics

The results reflect the Company's strategy to further leverage its investment in existing centres and capitalise on the new centre build out of FY21 and FY22. The combination of more moderate investment in new centres, strong cost control and improved operating performance of existing centres resulted in a materially improved financial outcome for the Group.

During FY23 patient volumes increased as operating conditions moved past the COVID-19 pandemic. The Group benefited from the momentum of higher appointment volumes and falling cancellation rates, delivering total Patient Fees growth of 19.5% to $270.5m vs pcp, with a 14.9% increase in Same Centre Patient Fees.

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[1] Underlying results exclude the impact of the Australian accounting standard (AASB 16) and other one-off related items. A reconciliation of underlying to statutory results is disclosed in the Appendix of the FY23 Investor Presentation, Appendix 4E and the Annual Report.

Total practitioner hours rose 13.3% to 690k hours, while total appointments attended increased 16.1% to ~1 million.

Underlying EBITDA rose 113.3% YoY to $24.1m, reflecting the uplift in revenue and underlying margin improvement, driven by improved operating efficiency and cost management. These trends were more pronounced in 2H 2023.

EBITDA margins, both at a centre level and group level, improved materially in FY23, reflecting revenue growth and focused expense management. The key priority was to balance the efficiency of the dental centre workforce with the quality of services provided to practitioners as the Company emerged from the complicated and interrupted pandemic operating environment.

Underlying NPAT of $4.5m represented a reversal of the Net Loss of $3.2m reported in FY22, with a Final Dividend of 2.27 cps (fully franked) declared. Combined with the Interim Dividend of 0.35 cps, this represents a Total Dividend of 2.62 cps in FY23 and a payout ratio of 100% of Underlying NPAT.

Pacific Smiles' corporate overhead ratio fell to 6.9% in FY23 from 8.1% in the prior year. This was driven by two key factors: managing costs and headcount to align support office costs with the level of new centre growth; and the increase in Patient Fees.

Capital expenditure for the year was lower at $11.1m compared to $23.7m pcp, reflecting the reduction in the rate of opening new centres. However, Pacific Smiles continued to invest in its network by opening 4 new centres, adding 5 additional chairs in existing centres, completing one centre expansion and two relocations. The Group also consolidated the nib and PSD Chatswood centres into one centre and completed the roll out of 3D scanners across the network ($1.6m). A further $1.0m was invested in technology upgrades.

The improved financial performance resulted in a material deleveraging of the Company's balance sheet, with $9.5m of debt repaid over the year. As at end-June 2023, $9.0m of the $40.0m debt facility was drawn, with the Company in a Net Cash position of $9.6m. Debt facilities are not due to mature until September 2025.

By fiscal year end there were more than 900 dentists working from Pacific Smiles and HBF Dental centres, with a retention rate of ~85%. Pleasingly, patient satisfaction remains high with a year-end patient net promoter score of 90 reported.

Trading Update & Outlook

Performance to date for FY24, as of 23rd August 2023:

- Patient Fees $43.2m
- Patient Fees +14.1% YoY
- Same Centre Patient Fees +13.1% YoY

The Fair Work Commission Wage Decision of a 5.75% increase to modern award rates has been applied across the majority of the Pacific Smiles dental centre workforce as of 1 July 2023.

Pacific Smiles expects to open 5 new centres in the second half of FY24.

While management is pleased with the current operating performance of the business, given the prevailing uncertainty in economic conditions, FY24 guidance is not being provided at this time.

The present high cost-of-living environment and recent increases in interest rates may impact on future demand for dental services, albeit the vast majority of Pacific Smiles patients hold private health insurance.

An update on 1Q24 trading will be provided at the Pacific Smiles 2023 Annual General Meeting in November.

Pacific Smiles Chief Executive Officer, Phil McKenzie, said: "I am very proud of the hard work and dedication exhibited by the staff of Pacific Smiles this year, who all contributed to this pleasing result. It has been a complicated period for the Company, which has emerged strongly from the pandemic, servicing many returning and new patients who had not seen a dentist since 2020.

Pacific Smiles' growth strategy has three underlying pillars, being the opportunity to increase utilisation from the capacity in our more mature centres, growth from the maturation of our newer centres with the in-filling of new chairs, and new centre growth.

Management have been focused on improving the operating performance of the business throughout FY23, which culminated in a stronger second half outcome in both patient fees and underlying earnings. The business benefited from the momentum of higher appointment volumes, falling cancellation rates, and improving labour efficiency, without sacrificing service quality to practitioners or patients.

We have also seen an increase in the number of dentists choosing to practice out of a Pacific Smiles dental centre, taking advantage of the flexible conditions we provide and the supply of patients that they can provide care to.

Pacific Smiles has a strong balance sheet and is well placed to grow shareholder returns in 2024, despite some challenging economic conditions including rising labour costs. There remains embedded growth capacity across our network of centres, which provides the opportunity to unlock further operating leverage as appointment volumes continue to grow.

I am leaving the business in a strong position and look forward to watching the Group's continued growth and success."

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Investor presentation

Pacific Smiles will host a conference call for investors to discuss the full-year results at 11:00 am AEST, Thursday 24 August. Pre-Registration Link: https://registrations.events/direct/OCP60739

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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