

ASX Announcement

1300SMILES Ltd Annual General Meeting 26 November 2009 Managing Director's Address

It gives me great pleasure to welcome you to the fifth Annual General Meeting of 1300 SMILES Limited.

Our results for the year to 30 June 2009 were outstanding in every respect. Shareholders would know by now that I speak frankly whether the news is good or bad. I'm committed to making sure you know the whole story of how our company is going. The simple truth is that the 2009 year was fantastic. Today I'll review some of the numbers with you, but I'll also try to put them in the context of the Australian economy and our industry in particular.

So let's start with a review of the actual results and then move on to flesh out the story underlying those results.

First, revenue increased by 47%. Profit after tax increased by a very solid 74%. The relationship between those two numbers tells me a lot. It tells me that we've reached an efficient operating scale, which means that an increasing proportion of every extra dollar of revenue makes it to the bottom line as profit.

Second, we have succeeded in turning these results into real benefits for shareholders. We have, as always, kept the share register tight, with the total number of shares on issue increasing by just 1.4% during the 2009 year. Because of this, the big increase in profit delivered a big increase in earnings per share, up 72% to 18.7c per share.

Third, that big growth in earnings per share enabled a nice rise in the full year dividend, which increased by 20% to 11.4c per share. We remain absolutely committed to running the company to increase earnings per share and dividends per share.

The Australian Economy and Credit Situation

At last year's Annual General Meeting I felt that I had to begin my address by dealing with the question of how the global financial crisis would affect 1300SMILES Ltd. At that time I reported that we had not seen any negative impact on our business. A year on, it gives me great pleasure to tell you that the economic downturn and the credit crisis have not had any identifiable effect on our business. At worst, we can suppose that in the absence of the year's economic troubles our results might have been somewhat better, but this would be mere speculation.

As I mentioned, our company's revenue rose by 47% in the 2009 year and our profit increased by a remarkable 74% on the previous year. The 2008 annual result was itself entirely satisfactory, so we are entitled to be proud indeed of the big gains recorded in 2009.

The most important thing we learned from the 2009 year was this: while the Australian economy clearly went through a severe test, our defensive business model allowed us to continue to grow and prosper.

Access to Capital

At no point during the economic crisis was our access to capital restricted in any way. Over the past year we have negotiated larger lines of credit on more favourable terms. I can say categorically that access to capital has never hampered our ability to make any acquisition or pursue any growth opportunity. I believe that this will remain true going forward.

In any case, the 1300SMILES business is strongly cash positive, and our capital requirements are modest. Over the course of the 2009 year our core debt actually decreased by 40% from \$5.7 million to \$3.4 million. This was the same year in which our revenue increased by 47%.

When you take the growth in our revenue and profit together with our always-modest and decreasing level of debt, you realise that the financial structure of 1300SMILES Ltd is now even more conservative and cautious than at any time in the past few years. I think we're entitled to be proud of the fact that the company's dividend to you has continued to grow while the business which delivers that dividend has become increasingly safe and secure.

Growth

Back in the 2008 year we completed a number of major acquisitions which gave us a presence throughout Queensland. We now have seventeen separate facilities serving the ten largest cities and regional centres in Queensland, plus one just over the border in Tweed Heads, NSW.

We spent the 2009 year integrating these acquired facilities into our business, but we did so without neglecting the key driver of our expansion: that of organic, internal growth. During the 2009 year we did not make any big acquisitions, and at this point it's safe to say that we won't make any in the first half of the 2010 financial year.

Most of our seventeen established facilities have capacity to accommodate additional dentists. We build them that way on purpose, as the additional cost of having a few extra rooms is very small, and having that available space allows us to take on extra dentists immediately, with virtually no start-up cost. Adding just one dentist to each of our existing facilities would increase the size of our business by far more than any acquisition we've ever made, and you can be sure that our recruiting and acquisition efforts are focussed on making the most of our existing facilities.

We also know that in many areas we can deliver growth by establishing entirely new sites, with no need to acquire an established practice. We find that these sites are capable of attracting dentists who already know that they don't want all the hassles of running their own business as well as those who have the experience of running their own facility and have had enough.

We expect to open our newest green field site in a medical precinct in a modern Woolworths-anchored shopping centre in Brisbane, where our facility will be located between a new Terry White Pharmacy and Medical Centre and a collection centre for a major pathology provider. I expect that we will be announcing further new facilities located in similar medical precincts over the coming year.

Competition in the Dental Services Market

There are other companies in the market which seek to benefit from the ongoing consolidation and evolution of the dental services industry. A few of these aim to build up businesses for listing on the Australian Stock Exchange, but I would only note that another year has passed and 1300SMILES Ltd is still the only listed company in its industry.

The fact that certain companies in our market are willing to pay outrageous prices for dental practices--far more than they can ever be worth, in my view--is likely to lead to pain for investors in those companies at some point in the future. I am aware of many acquisitions which have been completed on terms which are both unreasonable and unsustainable.

I believe that it is incumbent upon the board and management of 1300SMILES to do everything we can to protect our company and our shareholders from any collateral damage resulting from what I believe will be the unavoidable disaster which awaits the pumped-up, over-leveraged,

utterly unsustainable dental consolidators who are hoping to make a quick buck out of the dental services industry.

We will protect our good name and our shareholder value by continuing to run 1300SMILES as we always have. We will work constantly to deliver strong results built on a safe financial structure and continue to build on our long track record of sensible, sustainable operations.

Outlook

The outstanding results for the 2009 year create a significant hurdle for us. At this point I will not make any estimate of our 2010 results. We maintain our policy of not forecasting results except on those occasions when we are required to do so by the Australian Stock Exchange.

I can say, however, that it is unlikely that the 2010 year will deliver year-on-year gains on the huge scale of the gains recorded in 2009. I believe that the 2009 year vaulted us upward to a new base from which we will resume our constant, incremental growth. Our management accounts for the first four months of the year give me confidence that we will in fact deliver growth in revenue, profit, and earnings per share, but probably not to the same degree as the massive growth in the 2009 year.

We remain aware that the global financial crisis could have a delayed effect on the regional economies in which many of our facilities are located. It will, as always, be hard to measure the effects of any such regional downturn, and I remain confident that our core growth will overwhelm any localised slackening in demand. In many of the markets in which we operate, the magnitude of dental services turnover is limited by capacity--i.e., the number of dentists--rather than by patient demand.

Our growth in 2010 and future years will come from doing the things we already know how to do well. We'll attract more dentists to base their practices in our existing facilities. We will make acquisitions when the terms are reasonable, but we will not buy profitless growth. We will develop new sites, with a focus on medical precincts, in centres where the demand for dental services is high. We will develop variations on our core business, by, for example, managing facilities not directly owned by 1300SMILES. We will do all this with a steadfast focus on the goal of growing earnings per share and dividends while delivering excellent services to our patients, our staff, and our dentists.

Thanks

I thank you for your support, and I thank our many employees and associated dentists for their hard work in delivering these results to you.

Dr Daryl Holmes
Managing Director

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