

General E-mail Alert
1300 Smiles (ONT) will keep you smiling.

This note is being sent to all clients.

Key Points

1. It is now time to top up your holding in this stock.
2. Company has continued to grow profits through acquisitions with out borrowing.
3. Due to the market down turn no one is paying attention to the smaller shares, giving you an opportunity to get set for the future growth.

It is no secret that ABN AMRO Morgan's Townsville is a big fan of 1300 Smiles. Why? Because we think that this is a great story which will get better over time. In today's business environment 1300 Smiles is a great example of how a local company can expand through traditional methods without excessively gearing their company and working with the owners of the business they are acquiring to make sure that the new business will quickly become a profitable part of 1300 Smiles.

Business model

1300 Smiles operates dental practices in nine key populated centers in Queensland. The mix of company facilities continues to shift toward larger multiple-dentist practices accommodating four to ten dentists and toward highly visible retail locations. ONT can accommodate additional dentists in many of these centers, and it can open a new centre in any suitable location, at no cost to the incoming dentists. The company actively seeks to recruit new dentists to base their practices within company facilities, and it actively seeks to acquire existing practices.

It looks to acquire practices for cash which has been mostly funded through cash flow; it does not use shares or fancy financial engineering arrangements for acquisitions. Looking through their December 2007 financials the lack of debt is noticeable; the only large short term debt is trade creditors coming in at \$950,000. This is a refreshing change when compared to most listed companies.

Growth

The company has experienced great growth over the past 6 months reporting an 86% increase in Revenue and a 22% increase in Net profit over the same period. The dividend has also grown from a mere 3.8 cents to an expected dividend of 8c this year which is growth of 110% since 2005.

The dividend rate on the current price is running at 3% fully franked but when worked out on the float price which was 80 cents (which is the price which a lot of our client purchased the stock at) you have a yield of 30% fully franked. With the recent acquisitions put in place I expect to see this dividend continue to grow.

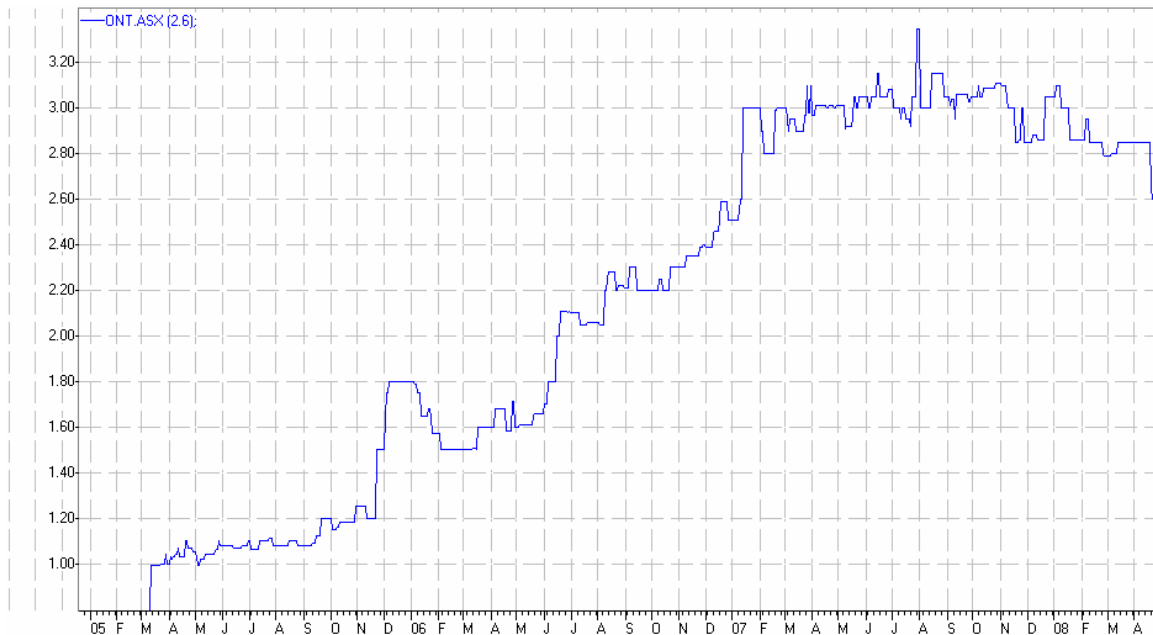
Acquisitions

The company is tirelessly looking for more and more acquisitions which are earning accretive to the business; to date they have offices in Townsville, Mackay, Gold Coast, Gladstone, Brisbane, Caloundra and recent purchase Toowoomba. All of these acquisitions have been earnings accretive from day one.

Acquisitions have been slow and steady and I expect that this will be the process moving forward as management are careful to make sure each new acquisition is earnings accretive from day one.

Price

Since listing the price has moved from 80 cents to a high of \$3.35 and is currently trading at \$2.60. This is a 225% gain or a 75% per annum capital return. As you can see from the below chart the price has come back from it highs along with the rest of the market.



At the current level I expect one of two things to happen, the price to increase in line with increase earnings or a big player look to move in and take over the company with a view to increase the acquisition rate. Either way this will be a positive for the stock.

Why you should buy.

With current market concerns small shares like this one have been forgotten. This provides an opportunity for investors to add to their existing holdings or take a position in the stock at a reasonable price.

This is a long term story; I am recommending that you look to buy this stock and hold. I do not expect to see any short term jump in the share price. But that's OK, as it is providing a reasonable fully franked dividend which will continue to grow as the company continues to acquire more practices.

We can also expect interest in the stock to return once the market has recovered and as such I would then expect to see the price rise steadily.

Summary

This is a long term investment; this is a small business which will in time grow into a very large and profitable one.

Management takes a steady and responsible approach to growth as such we will not see this company fall over.

Dividends and earnings are growing fast and are expected to continue to rise plus we could see this company taken over in the future.

We are not looking to bet the farm on the stock but merely make a strategic investment by either topping up your existing holding or making an initial investment in the company.

If you are interested in taking advantage of this opportunity please contact your advisor on 07 4771 4577.

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With my best regards,

Jason L. Fittler CPA(FPS), B.Com, DFP
Authorised Representative - 259250
ABN AMRO Morgan's Limited - Townsville
Ph: 07 4771 4577
Fax: 07 4771 4527

www.abnamromorgans.com.au

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