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ASX ANNOUNCEMENT

27th November 2008

1300SMILES Ltd (ASX code: ONT)

AGM – Managing Director’s Address

Welcome

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

Our company made excellent progress and delivered excellent results in the year ended 30 June 2008. We have continued to move forward since that date and we fully expect to deliver outstanding results in the 2009 year.

Credit and Banking Crisis

Before I can discuss the specific performance of our company and its outlook, I must first address the biggest single issue facing our economy and all companies: the crisis in the financial sector and the flow-on effects of that crisis on the rest of the economy.

I am proud to report that the difficulties in the financial sector have had little if any effect on 1300SMILES Limited, and that the overall effect of the current financial ructions may in fact prove to be strongly positive for our company.

In an earlier draft of this address I would have told you that the only negative effect of the credit crisis was an increase in the cost of borrowed funds. At this point, however, it appears that even this small effect is being unwound as interest rates fall back. In any case I urge you to keep this effect in perspective. At the end of June our company had net borrowings of \$4 million. On that balance, each 1% increase in borrowing costs reduces our profit by \$40,000. This works the other way also, of course, as each 1% decrease in interest rates increases our profit by about \$40,000. Forgive me for dwelling on this point. I do so only to emphasise that the cost of borrowed funds has only a small effect on our results, and that effect now seems to be turning positive.

We do rely to some extent on credit facilities to fund our ongoing expansion program. I assure you that we acquire dental practises only on terms which guarantee our shareholders returns far in excess of our cost of funds. We acquire dental businesses with borrowed funds which presently cost us around 7%. We would not even consider buying these businesses unless they would still deliver positive results at much higher borrowing costs than those we actually face.

Apart from interest rates, the other worry faced by all companies is that of a possible restriction on available credit. We have recently re-negotiated our main credit facility, and we believe that we have secure access to all of the funding required for our ongoing expansion program.

Capital Situation

Against the gloomy conditions in the broader market, our capital position is secure. One great strength of our company is the fact that we produce a large positive cash flow in every period. I mentioned that our loan balance at the end of June was about \$4 million; we could repay much of that amount from free cash flow from the first half of the current year if required. That's not how we plan to use our cash flow, mind you, as we intend to maintain and increase our dividend to shareholders and apply further free cash flow to our expansion effort.

All of the evidence available to us shows that our access to capital is free and unrestricted. The low cost of loan funds means we face no barrier to expansion over the next few years. We believe that further equity capital would also be available to us if we were to seek it, but our present analysis shows that for now it makes more sense to acquire further businesses using borrowed funds. This approach delivers the greatest positive increment to earnings per share. Our modest level of gearing gives us the latitude to choose between debt and equity finance, and we will do everything we can to preserve this flexibility.

It's worth reflecting on the share market performance of 1300SMILES Ltd shares. We first listed on the Stock Exchange in March 2005, more than three and a half years ago. Our share price is now almost three times the 80c issue price, despite all the drama in the Australian share market, which has delivered one of the five largest declines of all time over the past year. The All Ordinaries Index and the ASX-200 index are both at levels well below those of March 2005. Over that same period, our share price has nearly tripled.

In saying that, I emphasise that the board and management of this company cannot control the share price, and we do not seek to do so. All we can do is manage the company as best we can. We focus on increasing earnings per share and dividends per share above all. The share price and its outperformance relative to the market is simply a message that the market likes our conservative, careful approach to business and likes the robust, defensive market in which we operate.

2008 Full Year Results

Now let me turn to our results for the full year 2008. Forgive me for addressing the company's situation in an unusual order. It seemed to me extremely important to address the capital issues first. The company is in top shape financially, as I hope you appreciate. We have many options going forward, all of them positive.

Our company is in great shape because it has been delivering great results. You might remember that a year ago I explained to this meeting that the 2007 year delivered a flat profit result, but that we had nevertheless made excellent progress and laid the groundwork for a strong 2008. This year we delivered exactly what we promised.

You'll recall from the Annual Report that 2008 revenue was up by 81% on the previous year, that both earnings and earnings per share were up by 30%, and that your dividend increased by 25%. These results speak for themselves. They tell you that our business model is right and that our implementation of that model is right.

Not perfect, but pretty good. We work long and hard to improve all aspects of our operation, from recruiting and acquisition through to purchasing and collections. I believe that what we demonstrated to you in 2008 is what you can expect in 2009:

- we grow revenue and profits organically, by improving the utilisation and efficiency of our dental professionals
- we extract benefits from the economies of scale available to us
- we make acquisitions on terms which deliver increased profit and earnings per share
- we integrate new acquisitions and new recruits successfully

That's really all we do. We use our human and financial resources to create a setting in which dentists can operate profitably and agreeably. Our business is simple and utterly transparent. You all understand what we do; by holding our shares you choose to trust us to do it well into the future. We will continue to do everything in our power to deserve that trust.

Outlook

This brings us to our outlook for the future. With more than a third of the current financial year behind us we can already see clear evidence that the 2009 results will be significantly better than those of 2008. 2009 could well prove to be a transformative year for the company, the year in which we step up to an entirely new level and scale of operations.

Because the results for both the first half of 2009 and the full year are likely to be so much better than those of the previous year, your directors believed that we were obligated to lodge a forecast of our results with the ASX. In our release to the market dated 24 November 2008 we forecast that profit for the first half year will be up by around 67% on that of the same period in the previous year.

In making this forecast, I assure you that we have been extremely conservative. We made this estimate on the basis of our actual (but unaudited) results for the four months to the end of October and on the basis that our results for November and December will be merely equal to those of the same months last year. Allowing for all possible twists and turns, I can tell you that your directors have full confidence in this profit forecast. Speaking personally, I will be surprised and disappointed if we don't surpass the forecast 67% growth for the first half by a comfortable margin.

For the full year 2009, we expect that that our earnings growth (that is, our Profit After Tax) will be at least as good as that of the first half. We do not yet have enough data to make a more precise forecast for the full year, but all of the indications are positive. I dare say that this is the year many shareholders have been waiting for, the year in which the obvious logic of our business model starts to deliver results more on the scale you should expect.

We aim to achieve this growth simply by doing more of what we've been doing. We now operate seventeen multi-dentist facilities. Most of these could easily accommodate an additional full-time dentist or two. We designed all of the newer facilities that way, as it costs very little to build in capacity for additional dentists. This means that the capital cost of adding dentists is low, and each new dentist makes an immediate contribution to revenue and profit. Recruiting individual dentists to join our existing practices is a high priority. As of today, I am happy to report that several additional dentists, therapists, and hygienists have joined our existing practices since the beginning of the financial year, and that we have agreements in place with several more dental professionals who will join us in the next few months. When a dentist joins an established facility we face little or no capital cost, and the new dentist generally makes a contribution to our profit from the first week.

At the same time we will continue our aggressive campaign to acquire established practices, focussing on larger practices with a minimum of three or four experienced dentists producing above-average revenue. Every would-be consolidator is after these same practices, of course, but in these difficult times I think our long history of successful and stable operation and our access to capital will give us some advantages.

Looking back, we're proud of our long record of profitability and growing dividends, but I want you to know that we're not satisfied and we're not complacent. We have built this company to a level at which it can really perform, and now we're going to insist that it do so.

Competition

I might now have a brief look at our competition in the dental market. The topic of competition brings me back to how we could well benefit from the current financial crisis. While 1300SMILES Ltd is the only listed company in the dental industry, there are other companies trying hard to copy our model. To my mind, many of these companies hope to emulate our success without doing the many years of hard work it took us to get to our present position, and I predict that some of them will find that it takes far longer than they hope.

But the big issue for the would-be emulators is the supply of capital. I mentioned that our company had a debt balance of \$4 million last June. One of the other players in this market is reported to have total borrowings in excess of \$150 million already, but I have to wonder about the future of any business built on the assumption that its borrowings are essentially unlimited.

Our company's conservative financial structure has served us well as the world has gone through the dramas of the past year. As we head into what could be an extended period of financial disruption, our business and our financing are, in the view of your directors, entirely sound.

Conclusion

Let me conclude by saying that the evidence already in hand suggests that the 2009 year will be our best ever, with results far better than those of 2008, which itself was quite good. I hope that we will continue to enjoy your company as fellow shareholders and, wherever possible, as patients.

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

On behalf of the Board
Dr Daryl Holmes
Managing Director

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