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Media Release

Dental Group Defies Economic Headwinds with Record Dividend Payout

Listed dental group 1300SMILES (ASX: ONT) has delivered a record dividend payout of 11.25c a share on the back of solid half-year earnings that defied economic adversities, including the domestic political gridlock at both federal and state levels.

The first ASX-listed consolidator of dental practices, the Townsville based 1300SMILES reported a 4.5 per cent gain in normalised net profit to \$3.8m, despite revenue declining 3.4 per cent to \$18m.

Taking into account the one off sale of a dental practice in the previous corresponding half, reported earnings slipped 2.4 per cent to \$3.8m.

1300SMILES managing director Daryl Holmes described the result as highly creditable, given a number of economic uncertainties which have made consumers more reluctant to spend – even on essential dental maintenance.

Dr Holmes said the surprise US presidential election result had created uncertainties across most sectors of the economy.

“Whether the economic result eventually turns out to be good or bad, consumers react to this sort of uncertainty by waiting it out with their wallets closed.”

Dr Holmes said the company had also felt the fallout from the political gridlock at both Queensland and federal government levels.

“In Queensland the state government depends on the support of a single independent member,” he said. “An election is not due for another year but there’s plenty of speculation that it will come sooner.

“This sort of leadership and policy vacuum always creates distress for consumers and exerts downwards pressure on consumer spending.”

He said a third factor was the growing gulf between booming house prices in Sydney and Melbourne and slower growth elsewhere, which presented headwinds for 1300SMILES’ regional practices.

“Personally, I can’t see how it makes sense to buy more dental care because the price of houses in your neighbourhood is increasing, but it’s an observable effect,” Dr Holmes said.

Current year outlook

On a brighter note, Dr Holmes said the mining downturn appeared to have abated, with activity increasing in regional areas important to the group. This trend is expected to support an improved second half result.

Having taken a cautious approach to acquiring more dental practices, Dr Holmes said opportunities were emerging as vendors adopted a more realistic view of valuations.

After paying too much for practices earlier, other corporate dental chains have curtailed their acquisitions.

“We expect that opportunities to make sensible, earnings-accretive acquisitions will increase,” he said.

Dr Holmes said earnings from the debt-free 1300SMILES should return to “more familiar upward trajectory, all within the bounds of the conservative management style shareholders expect from our company.”

He said: “Our monthly results towards the end of the first half (to December 31 2016) and over the first several weeks of the second half have been improving, subject to the usual complications of the holiday period.”

*For broader results commentary, see Dr Holmes’ letter to shareholders lodged on the ASX today, or on www.1300SMILES.com.au

ENDS

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ABOUT 1300SMILES LTD

OVERVIEW OF THE COMPANY'S BUSINESS

1300SMILES Ltd owns and operates full-service dental facilities at its sites in New South Wales, South Australia, and in the ten major population centres in Queensland. The company continually seeks to expand its presence into other geographical areas throughout Australia. It does so both by establishing its own new operations and by acquiring existing dental practices. The administrative and corporate offices are in Townsville.

1300SMILES enables the delivery of services to patients by providing the use of dental surgeries, practice management and other services to self employed dentists who carry on their own dental practices. The services provided by the company allow the dentists to focus on the delivery of dental services rather than on the administrative aspects of carrying on their businesses. The dentists pay fees to the company for the provision of these services under a Dental Service Agreement with the company. In some circumstances the company also employs qualified dentists.

The dentists who use the company's services range from new graduates to experienced dental professionals. Several dentists who use the company's services have special interests and experience in such areas as endodontics, oral surgery, implants and periodontics and cross-refer work to other dentists who use the company's services.

The company provides comprehensive services in the areas of marketing, administration, billing and collections, and facilities certification and licensing to all participating dentists. The company also provides all support staff, equipment and facilities, and sources all consumable goods using the buying power which derives from such a large group of dental businesses.

FUTURE DEVELOPMENTS

The company's core objective is to continue to increase profits and shareholder returns while providing a rewarding environment for our staff and the dentists using our facilities.

The company aims to achieve a combination of organic growth in its existing locations and the addition of new practice management facilities.

The key drivers for future growth of the company are:

- Increasing profits by attracting more dentists to our existing facilities and expanding those facilities which are already at full capacity;
- Assisting dentists who already practice within the 1300SMILES system to increase their turnover and income through benchmarking, training, and mentoring;
- Establishing new practices in existing and new regions (greenfield sites);
- Acquiring substantial existing practices where we can do so on favourable terms; and
- Managing dental facilities owned by others.

DENTIST ENQUIRIES

Owners of dental practices who are interested in unlocking the goodwill value of their businesses (or freeing themselves from all the management hassles) are invited to contact Dr. Daryl Holmes, Managing Director, on +61 (7) 4720 1300 or md@1300SMILES.com.au.

Qualified dentists who wish to know more about joining one of our established facilities are encouraged to contact Dr. Holmes directly or email dentalcareers@1300smiles.com.au or visit our website www.1300smiles.com.au/careers.