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1300SMILES Ltd
Annual General Meeting 27 November 2014
Managing Director's Address

The 2014/2015 financial year brings a number of milestones and notable anniversaries.

First of all, this is our company's tenth annual general meeting as a listed company. To me this time has passed quickly indeed, but when I look over some of my previous AGM addresses I realise that long term shareholders have been with our company through some very different times.

At the time of the AGM in 2008 the only topic on the minds of most investors was the Global Financial Crisis. I had the pleasure of standing before you at that time and advising that 1300SMILES was barely affected, if at all, by the biggest financial disruption of our era.

Back in 2008, as now, our company enjoyed a defensive, recession-resistant business, a focus on organic growth and careful acquisition, extremely low levels of debt, and a sharp focus on cost control. These virtues, along with a great deal of hard but largely invisible work on the part of our head office staff, allowed the company to sail through the GFC without missing a beat, with revenue, profit, and dividends rising year by year.

A year later, in 2009, I assured shareholders once again that 1300SMILES had weathered the GFC storm and had continued to deliver solid growth. In that year I commented on the activities of certain other operators in the dental field who seemed willing to pay more than practices were worth, with the blind objective of acquiring as many as possible, value notwithstanding.

I foreshadowed at that 2009 AGM that our acquisition activity would probably slow in the presence of such irrational competition. We redoubled our focus on organic growth and continued to deliver increases in revenue, profit, and dividends even as we declined to over-pay for dental practices. Conditions in the market have certainly changed in the last five years, with most of the over-exuberant buyers having changed hands, evolved, or changed their valuation methodology.

For those of you who attended the 2010 AGM, you may recall that I went on at some length about our efforts to make 1300SMILES the most attractive place for dentists to operate their businesses. Of course, this was a prime focus long before 2010 and remains so today.

I pointed out back in 2010 that our success in attracting good dentists helped us enormously in developing our facilities in regional areas which had long suffered with unmet demand for dental services. On this front, little has changed, and I expect this will remain a core focus for many years to come.

I think it was also in 2010 that I first mentioned, under the heading “Just Plain Value,” our company’s association with Youth With A Mission. This has obviously turned into a fruitful and enduring relationship. Many of our company’s dentists and staff have served as volunteers on YWAM’s Medical Ship, and I myself have now completed four tours as a volunteer dentist onboard the ship up in Papua New Guinea.

Then there was the AGM in 2012. My main topic in that year was “What’s the same and what’s different.” The big difference, of course, was the sudden closure of the Chronic Disease Dental Scheme, a topic I have addressed so many times before I won’t talk about it here except to remind you that this had the effect of shrinking the revenue of the entire dental industry, overnight, by around twenty percent.

In many industries, a decline in total industry revenue of that magnitude would mean that every company in the industry would operate at a loss. In the case of 1300SMILES, we once again redoubled our efforts in all areas and braced ourselves against this tsunami smashing its way through our industry. In the style of a tsunami, the end of CDDS pushed our revenue far higher than normal before rushing back out, taking revenue with it.

You’ve all heard this story enough times before. After the tsunami we entered our second era as a listed company, the one from which we’ll measure our performance in every year going forward.

All of the strengths we had built in our first eight years as a listed company served us well indeed, toughening us to the point where we could shrug off the GFC as almost irrelevant and then survive the direct hit by the CDDS closure.

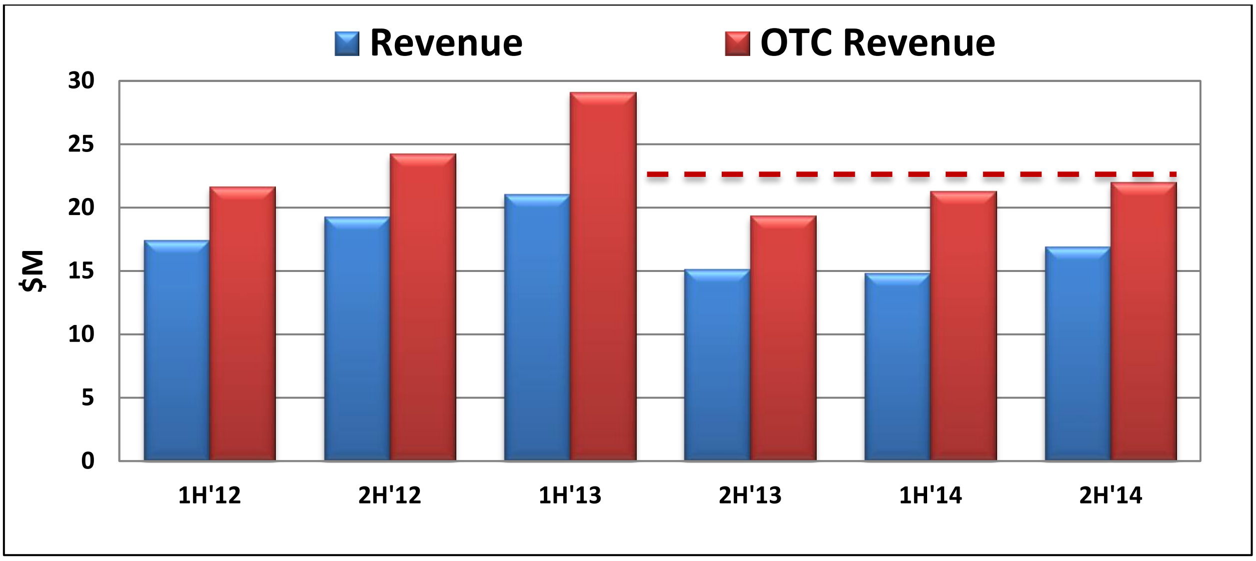
This first half of the 2015 financial year will be the first opportunity to do a period-on-period comparison to the first half of the 2014 year, which I consider to be the base year of the new era.

So far it looks pretty good. I always avoid making specific forecasts, because in every accounting period there’s some accounting issue which can change the picture significantly. These all even out in the end, but in any given period the probability of a surprise remains high.

Pushing that aside, it looks like our EBITDA result for the first half ending 31 December 2014 will show an increase comfortably in excess of 20% over the previous year’s first half.

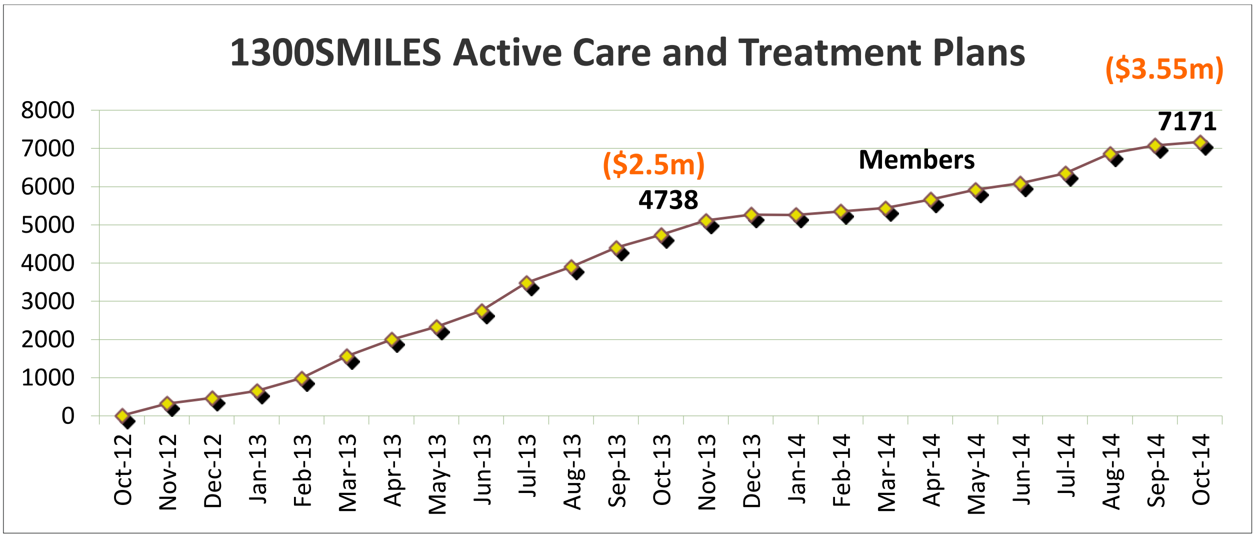
Some of that expected growth arises thanks to the acquisition, on practical terms, of BOH Dental late in the 2014 year. If we were to exclude the contribution from BOH, I expect we would still see an increase in first half EBITDA of about 10%. The first half results will see positive contributions from both organic growth and acquisition activity.

That's as far as I'll go. Over our company's entire history our policy has been not to make forecasts. I have said this much only to reassure shareholders that to the best of our knowledge and information our company has resumed its normal growth from the new baseline set in the 2014 financial year.



Let's have one more look at a slide we included in the annual report. This shows our revenue in each half yearly period over the last three full years. The first half of 2013 was the tsunami period in which patients and dentists rushed to get work done before the end of CDDS. In the second half of the 2013 year, the tide went out well and truly.

This brought us to the first half of the 2014 year, the first accounting period in the new era, the new normal for our industry. As you can see from the chart, we've seen a resumption of growth from this new base in the second half of the 2014 year. This trend has continued in the current half.

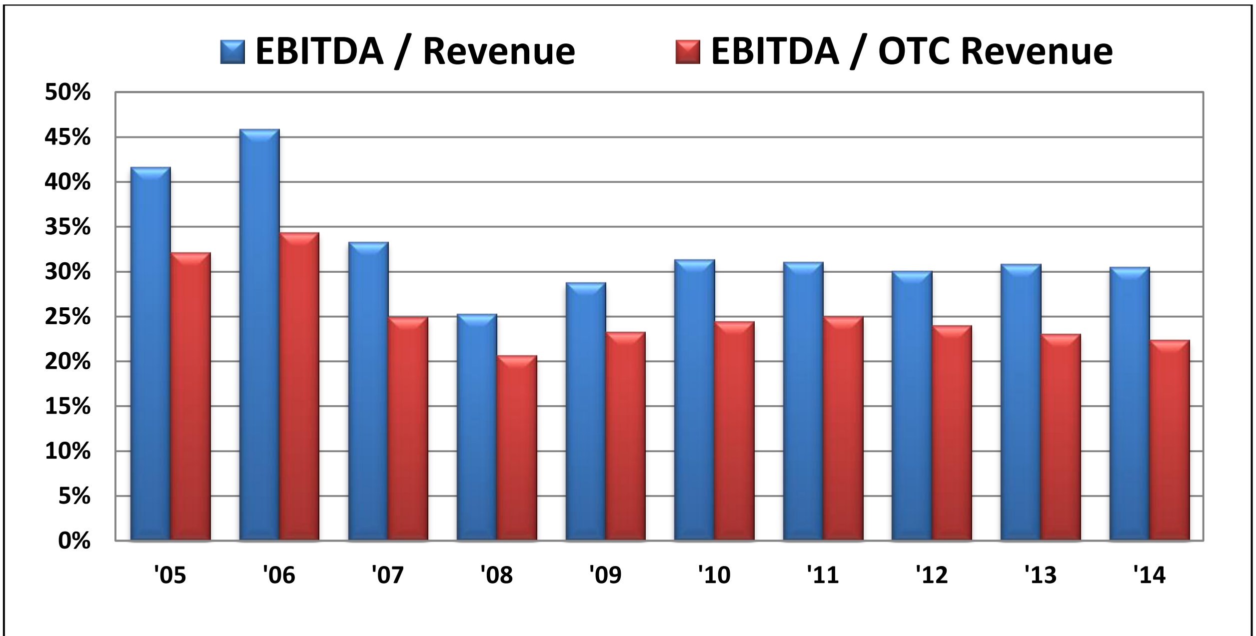


In our Annual Report for the year ended 30 June 2014 we reported on the continuing progress of our “dollar-a-day” Dental Care Plan.

As you can see in the chart, the Dental Care Plan continues to grow at a practical and manageable rate. While it’s impossible to glean exact figures, we are confident that a significant portion of Dental Plan members were previously foregoing dental care or deferring it to an unhealthy degree. The Dental Care Plan effectively brings a whole new population into our market by delivering basic dental care at a fixed price.

I am particularly proud of the Dental Care Plan. I’m proud as the managing director of this company, because it delivers membership revenue plus additional treatment revenue, which together deliver a large portion of the company’s growth. As of October 2014, the Dental Care Plan delivered revenue at an annualised rate of over $3.5 million.

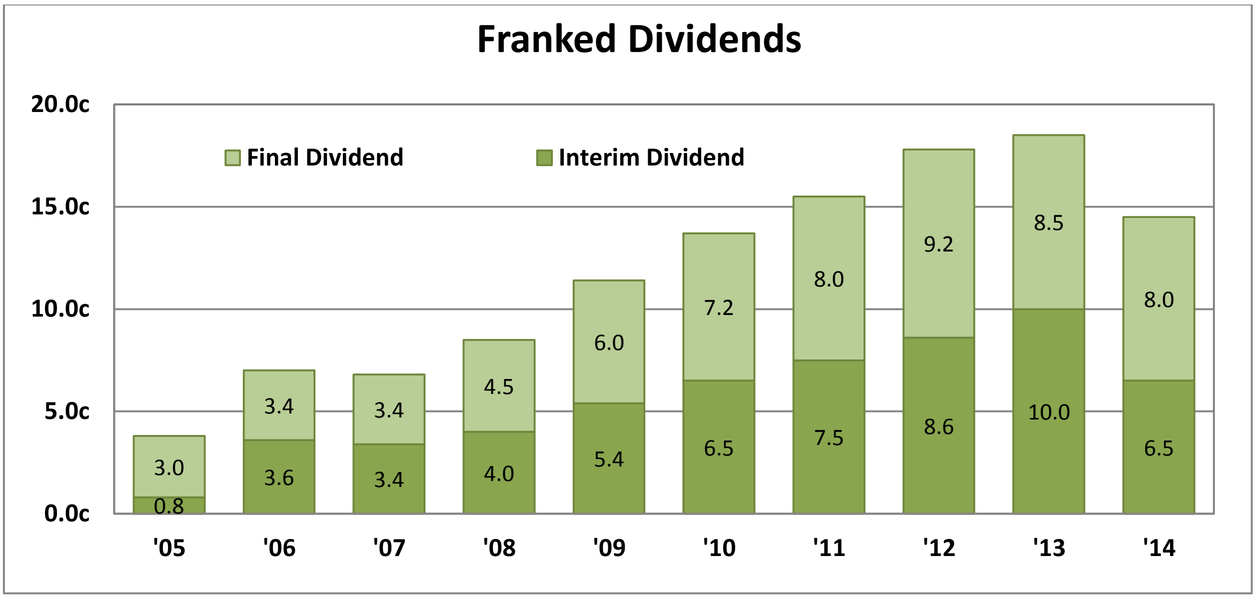
I’m also proud of this plan from my position as a medical professional. By delivering basic dental care on a regular basis we are playing our part in preventing more serious dental issues which can easily progress to dental affliction and broader health problems, all of which eventually end up as burdens on the public health care systems as well as sources of personal suffering--totally unnecessary--arising from a lack of basic dental care.



For the more financially-minded, I include this slide which shows how successful we have been in protecting the core profitability of the company through the difficulties of the past few years. To my eye, this chart is one of the best illustrations of our company’s core strength and management skill.

I would also like to mention the success of our cooperation with the Queensland government. For many years the state has struggled with excessive waiting lists, with thousands of people on wait lists for public dental services extending more than two years. The Queensland government has published a number of documents illustrating how many regional wait lists have shrunk from thousands of patients to zero.

Let's all agree to let them take the credit for this progress. Just between us, it is my view that it was 1300SMILES which delivered a big part of this great result, by rendering far more dental care with far fewer people at far lower cost than the state could manage to do without our help.



No report to shareholders would be complete without a review of our dividend history. Since our first dividend as a listed company back in 2005, the company has paid a total of $1.175 in fully franked dividends. That grosses up to a total of $1.68.

After ten years I suppose it's time to stop reminding our initial investors who bought shares at 80c that we've repaid their investment twice over in dividends alone.

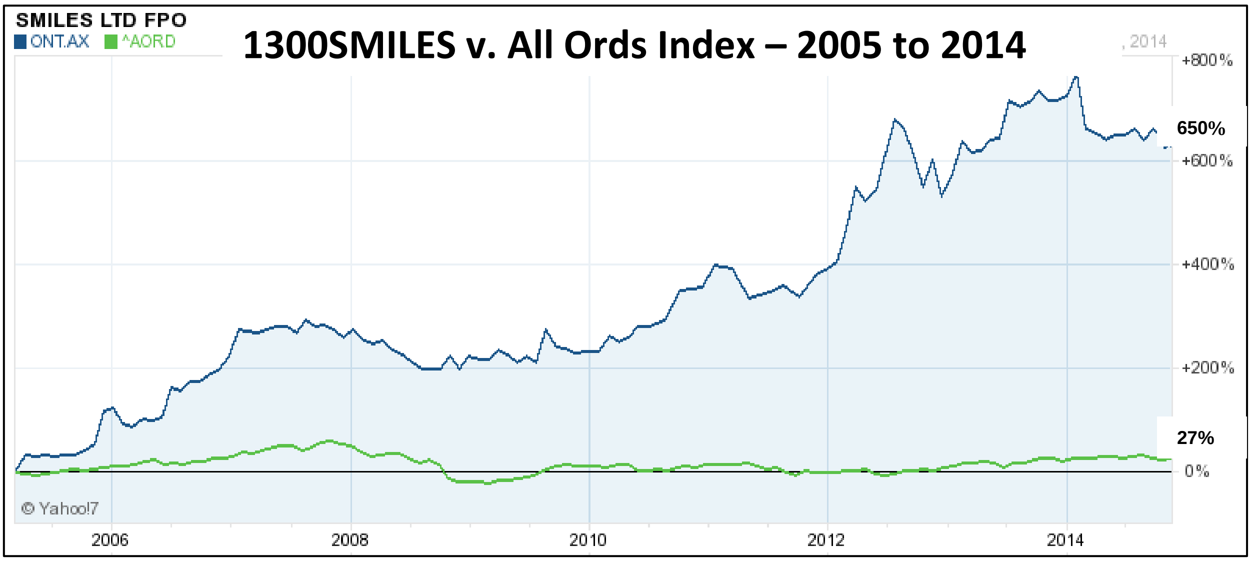
Everyone had plenty of time to buy shares in the company for less than $1.68 during our first year or so as a listed company. Looking ahead, I assure you we are totally focused on delivering safe and growing dividends for all shareholders, whether you bought shares last week or almost ten years ago.

The CDDS tsunami makes an appearance here in the dividend chart, also. The tide came in fast and high in the first half of the 2013 year. In keeping with our practice of setting dividends to give our shareholders the experience of owning our business, we delivered a nice big 10c dividend for that first half.

In hindsight perhaps we should have made that interim dividend smaller and paid the rest as a special dividend, to communicate more clearly the fact that the exceptional dividend arose in an exceptional trading period. We'll consider that approach should we face such exceptional circumstances in some future period. I emphasise, however, that I see no such thing coming.

As we approach ten years as a listed company I think we're entitled to have a look at a comparison of shares in 1300SMILES to the broader index, in this case the ASX All Ordinaries index.

As you can see, the index hasn't done all that well over the past decade, presently up, in price terms, by about 27% over ten years. That's ordinary indeed. 1300SMILES, on the other hand, is up by 650% over the same period. It never pays to watch share prices too closely, but our results over nearly ten years would seem to show that we're on the right track.



Now let's return to a developing issue. Dental services delivered under CDDS ceased almost exactly two years ago. Our company and the entire industry have had two years to adjust to the new reality. I believe that 1300SMILES has negotiated this change exceptionally well.

But there is, in my view, another tsunami on the horizon. CDDS, for all of its many flaws, did succeed in delivering dental services to thousands of people who were unable, or in some cases simply unwilling, to pay for dental care essential to their continuing good health. This far down the track, many thousands of people with serious dental ailments have gone untreated for two additional years now.

This lack of treatment will inevitably lead to a surge of serious dental and health problems. Many of these will have developed into serious medical/dental issues for which extensive and expensive surgery is the only treatment. Others will have since presented themselves in the emergency rooms as heart attacks, acute septicemia, and all of the other serious diseases which arise if you leave infected gums and other dental problems untreated long enough. How long is long enough? I speculate that we're getting there.

1300SMILES stands ready to assist health authorities in dealing with the coming wave of serious or getting-serious dental affliction. We remain mindful of the risks of building too much reliance on government at any level, and our dealings with the state of Queensland or any other government will include safeguards against any sudden policy change, I assure you.

I am certain that our dollar-a-day Dental Care Plan is helping on this front. This is great for patients and great for our company, but the dental health problems facing Australia are vast. I expect that we'll be working for the rest of our careers to deal with problems created by decades of government neglect of basic dental care.

One thing that has remained the same through all ten of our Annual General Meetings so far is your managing director. It's a good thing I started so young. I plan to be here for many more AGMs into the future. We have spent this past ten years building a company of which we can all be proud. The company is now stronger than ever before, having been tested and proven time and again.

Despite the passage of almost ten years as a listed company, it seems to me that there is far more ahead of us than behind us, so I hope you'll join me in thanking our dentists and staff for the hard work which has delivered the strong, stable company we have today. I hope you'll also join me in urging our company forward to gather up the abundant opportunities available to us.

Daryl Holmes
Managing Director

$6.5m

OLD SHIP
Pacific Link

NEW SHIP
MV Ammari