

**1300SMILES Ltd**  
**Annual General Meeting 28 November 2013**  
**Managing Director's Address**

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

When reviewing the last year, I was initially tempted to borrow from Queen Elizabeth and describe it as an *Annus Horribilis*. On reflection, though, it is more accurate to describe it as an *Annus Mirabilis*.

For the benefit of anyone whose Latin might be scratchy, the phrase means a "year of wonders" or a "year of miracles". A year in which events of major importance are remembered. A year in which events could have been much worse. A remarkable year.

In my address today, I am going to explain why I view the last year as an *Annus Mirabilis*.

A year ago I stood before you and told you about the imminent closure of the commonwealth government's Chronic Disease Dental Scheme (CDDS), which paid for urgent care delivered by dentists in private practice. The CDDS had grown to become by far the largest single buyer of dental services in Australia, paying about one billion dollars annually.

CDDS had grown to provide almost twenty percent of the revenue collected by all of the dentists in Australia. You will recall that this program was shut off, totally, with almost no warning, the day after last year's AGM.

I described the situation as a crisis for the dental industry. I said that there were extremely few dental practices that would be profitable after a 20% decline in revenue. I said that the average dental practice, run by a sole practitioner, would have no capital value whatsoever. I said that the business of acquiring dental practices by the various big players had already slowed to a trickle across the industry.

What has happened since we last met?

Acquisitions across the industry have continued at a trickle. By comparison, there has been a flood of dental practices to the market. We have studied hundreds of dental practices in the past year, and have acquired precisely one.

I would like to congratulate our acquisitions team on diligently trawling through the sea of opportunities, and our Board for remaining disciplined, patiently waiting for the opportunities which make sense.

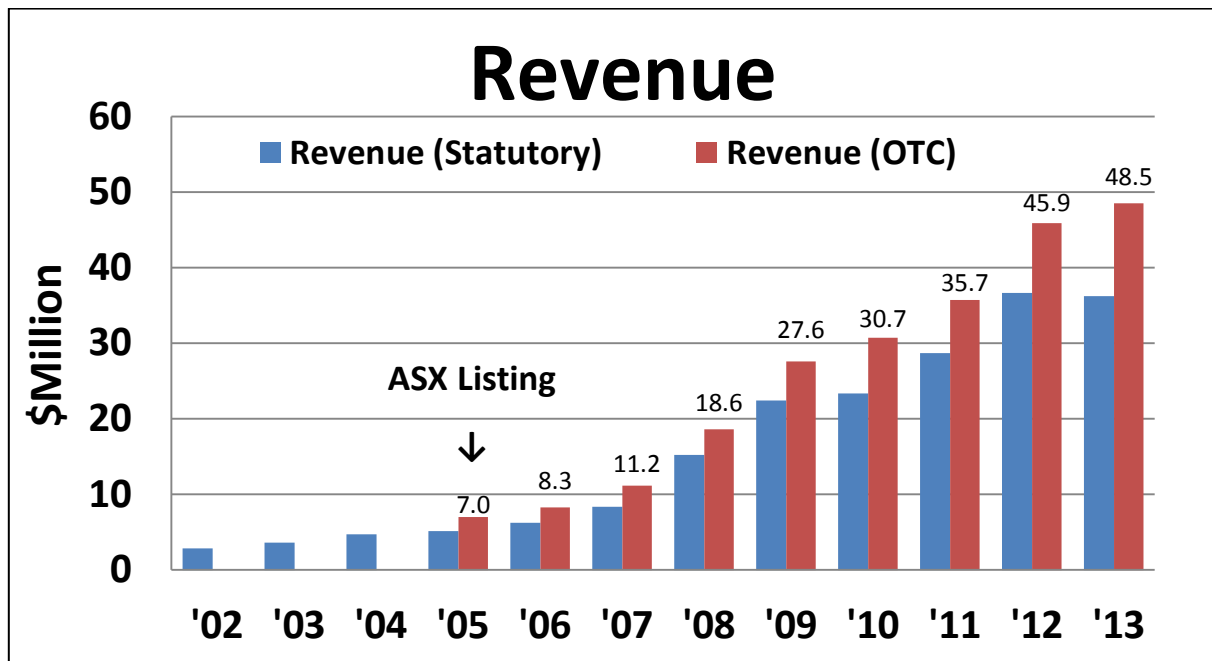
This is the first respect in which the last year is an *Annus Mirabilis*. If our business model had been dependent upon acquisitions, the year would have been awful. Fortunately, but very deliberately, ours is a different kind of business.

Our business is partly underpinned by the work we do with the dentists within the 1300SMILES system to optimise their practices. The steps we need to take are usually clear, and the results from our work are reasonably predictable and fairly immediate.

Our business is also partly underpinned by the in-filling of our excess surgery capacity, which is achieved by adding dentists. The addition of a dentist effectively amounts to a miniature form of acquisition—a very cost-effective one—and it is welcomed and celebrated as such internally, but it proceeds with little or no external fanfare.

By contrast, the task of identifying dental practices which are suitable for acquisition, and then agreeing on win-win terms with their owners, is an activity with a much more medium term horizon, requiring an acceptance of more sporadic results. Whilst we continue to pursue this activity enthusiastically and vigorously, I am especially pleased after the last year that we long ago chose to ensure that our business would not suffer any damage resulting from the lumpy and unpredictable flow of suitable acquisitions.

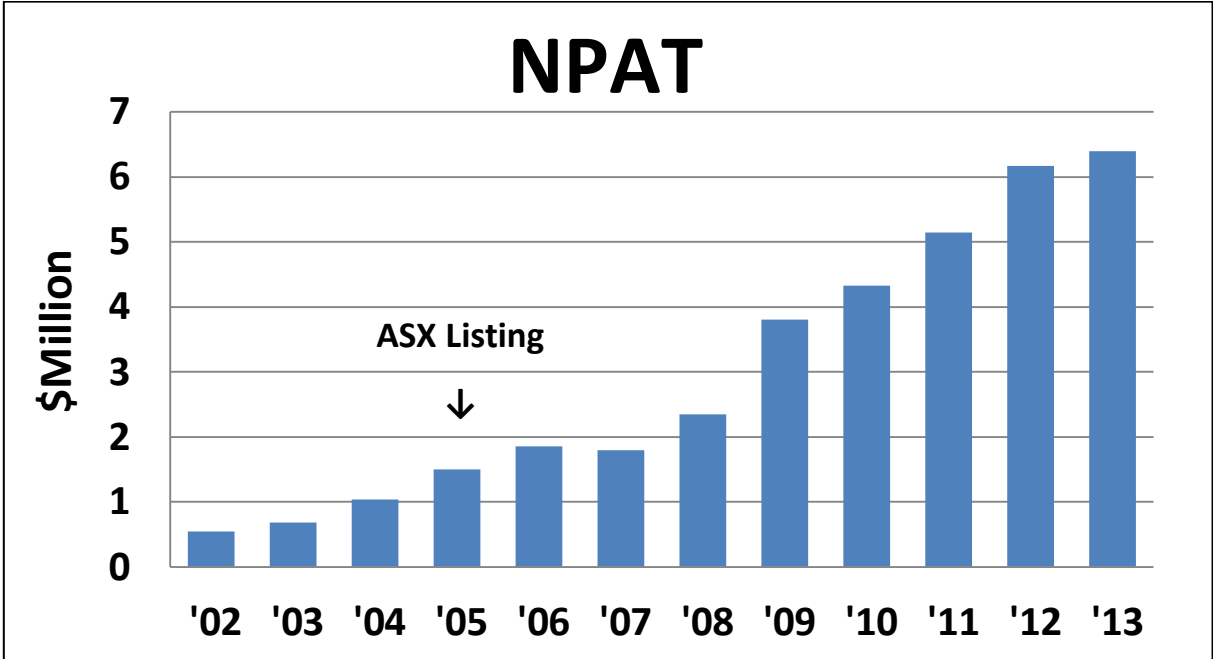
I would now like to cover our headline financial results, which are explained extensively in our annual report.



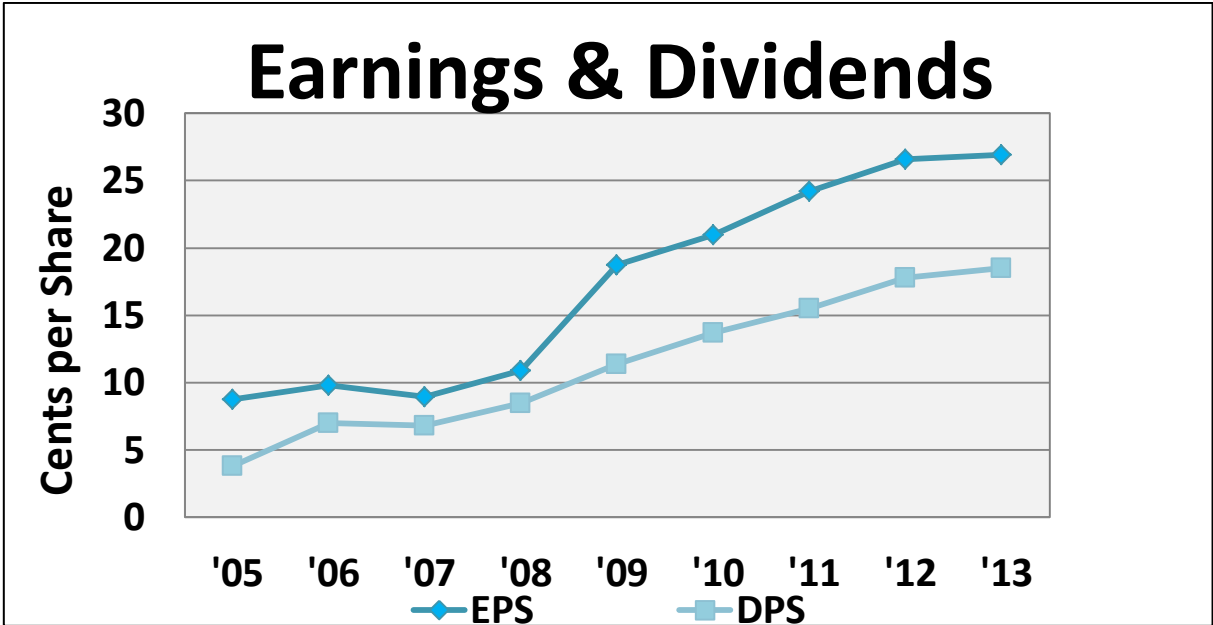
Statutory Revenue decreased by 1.3% to \$36.2 million, while Over-the-Counter Revenue increased by 5.4% to \$48.5 million.

Of course, no discussion of our financial results can be meaningful without acknowledging once again the extraordinary circumstances of the first half of the 2013 financial year. For the first five months of that year the Chronic Disease Dental Scheme was still operating, and doing so at a greatly accelerated pace as patients and dentists rushed to complete treatments before the scheme ended. As a result, the first half of the 2013 financial year showed a significant spike in revenue. This, as you know, was followed by lower revenue in the second half of the year, as 1300SMILES and the entire industry adapted to the reduced size of the entire dental industry in the post-CDDS era.

As I have advised shareholders previously, revenue in the first half of the current year will be lower than it was in the first half of the 2013 financial year. That does not reflect badly on the company in any way. One year ago the entire industry underwent a step-change downward to a significantly reduced size. The fact that 1300SMILES managed to deliver modest growth in the 2013 year testifies to the effectiveness of our robust management controls. The fact that the company has so far maintained its profit margins is evidence that the initiatives implemented in the past year are working.



Net Profit After Tax increased by 3.1% to \$6.4 million, ahead of Earnings Per Share growth of 1.1% to 26.9 cents, and in line with the full year fully franked dividend growth of 3.9% to 18.5 cents per share.



Our modestly favourable results in such extraordinary circumstances confirm the integrity of our business model. However, I want to make clear that I do not accept that modestly favourable results are acceptable results, ever.

Our business is in a defensive industry, and as such we enjoy protection from much of the ongoing turmoil faced by most businesses. People will always need assistance with their teeth. Routine preventative maintenance will always provide a steady stream of work for our associated dentists. When more serious oral health problems arise, people in pain will always act to obtain relief. Our services are not discretionary items. People will not completely disregard their oral health, even if they are in difficult financial circumstances, as evidenced by our growth through the GFC.

The last year was an Annus Mirabilis in that it stress-tested our business as it has never previously been tested. Our results have confirmed that our business remains durable. Now that the year is over, I am delighted that our business has gone through this test. You can and must plan for any number of contingencies, but the real test of a plan is when pressure is applied. A person's character is also best tested by pressure. I could not be more thrilled by the tenacity, commitment and innovation demonstrated by our people over the last year, and I thank them for their ongoing efforts and dedication.

I firmly believe that we have world class people building a world class company. I will in the coming months be able to reveal an exciting home-grown initiative as one example of world class thinking. I apologise for keeping you in suspense, but have to request your patience in the interim. Watch this space.

An innovation which I can talk to you about is our acquisition of the naming rights to the stadium we are in this morning, 1300SMILES Stadium. I am delighted by the media coverage we have received and continue to receive from this initiative.

We have received media exposure value well in excess of the cost. We have gained exposure to millions of people. Many of those people are within our existing business footprint, and we have received an enormous amount of positive feedback from those people. An additional large group of people are outside our footprint, but are now very much aware of who we are and what we do, and I firmly believe the brand recognition gained through this initiative will help us to expand into those markets in due course.

It is enormously difficult, if not impossible, to measure the return on any form of advertising or branding expenditure. I am comfortable, however, that we are receiving generous value for the cost. I would like to thank our friends at Stadiums Queensland for their ongoing efforts in ensuring that we get the best possible bang for our buck.

I would also like to thank our friends at the Toyota North Queensland Cowboys for their co-operation and collaboration. The Cowboys are a thoroughly professional organisation, and it is our pleasure and privilege to be associated with them. I hope you can join me in a guided tour of the stadium following our meeting.

Allow me to jump codes briefly. Despite the fact that we're gathered here in rugby league heartland, I would also like to mention that we have built an association with the Adelaide Crows Football Club during the year, courtesy of the Adelaide CBD dental practice acquisition we completed earlier in the year.

We acquired that practice from Dr Mark Earl, who among things has been the consultant dental surgeon for the Adelaide Crows for roughly two decades. We are delighted that Dr Earl continues his work with the Crows, and that the practice has performed above our expectations since acquisition.

Our Adelaide practice and its founders and former owners have a long and proud heritage in the dental profession in Australia, and we are proud and honoured to be guiding the practice forward into the future.

We are also honoured to have received a prestigious international award, presented in New York just last month, jointly with our friends at Youth With A Mission (or YWAM). The Dr Edward B Shils Entrepreneurial Fund recognises outstanding innovators in dentistry, and we are proud and humbled to be recognised for (and I quote) "*Passion, Dedication and Leadership in Bringing Much Needed Health Care to the Under-served in Papua New Guinea*".

I thank our many dentists and staff who volunteer their time to travel to PNG and work on board the YWAM Medical Ship in remote areas, performing much-needed dental work for the in-need people of PNG. We were nominated by the global dental giant Henry Schein. It is flattering just to be nominated, nice to be noticed on the world stage, and gratifying that the efforts of our people have been publicly recognised.

Whilst it has been a challenging year for the dental profession in Australia, our challenges pale into insignificance compared to the day-in, day-out, year-in, year-out, challenges faced by our closest neighbours and some of the poorest people on the planet. It is said that there are just 32 dentists in the whole of PNG, whose population is over 7 million, roughly one-third of Australia's population.

In 2011, the number of practising dentists per 100,000 population in Australia was 57, and that number would now be much higher due to the number of dental students who have graduated since that time. Thirty-two for 7 million compared to 57 for each 100,000. Expressed as ratios, that's 1:218,750 in PNG compared to about 1:1,754 in Australia.

The scale of the challenge is mind-boggling. I admire the character of our many dentists and staff who have left their families and work behind during a difficult year in Australia to help those whose needs are much greater. The service offered on the YWAM Medical Ship is a partial solution at best, but something is better than nothing.

Here at home, our work to improve the state of dental care in Australia continues to make good progress. I am referring particularly to our Dental Care Plan and our public private partnerships with the regional health boards operating under Queensland Health.

The rollout of our \$1 a day Dental Care Plan continues on a nice trajectory. We offer our Dental Care Plan in partnership with Dental Members Australia, an information technology company in which we have an equity stake. We have rolled our Dental Care Plan out in all of our dental practices.

Basic membership fees paid by our Dental Care Plan members now amount to about \$1.5 million annually, but of course this is a fast-changing figure as the membership continues to grow. Beyond the basic membership fee (which covers all preventive dental

treatment) many patients have also chosen to use our Dental Treatment Plan facility to finance more elaborate procedures. Revenue from these treatment plans is presently running at an annualised rate of about \$1.7 million, but remember that this too is a fast-changing figure.

I would invite you to dwell for a moment on the scale of what we have achieved so far. A year ago, the Dental Care Plan had not yet been launched. Today it delivers significant annualised revenue. This revenue is comparable to the total revenue of a number of established dentists—a fact which I expect will not be lost on dentists who are still considering whether to join 1300SMILES. Significantly, this revenue is also comparable to the total revenue of a large dental practice, or two or three smaller practices, yet without the capital cost of acquiring any additional practices, and without the hassle or expense of staffing and maintaining any practices. That's a lovely way to grow return on equity.

The Dental Care Plan's underlying software platform is being made available to a growing number of dental practices through Australia which are not owned by 1300SMILES.

It is not at all surprising to us that this platform has received significant interest from other dental corporates and many smaller dental practices around the country.

Imitation is the highest form of flattery, and we are starting to see copycats appear, attempting to reproduce the results of our Dental Care Plan. We see that as a very good thing. Mapped onto the innovation adoption curve, dental care plans have sped through the early adopters, and we believe they are now crossing the chasm to the early majority.

I believe competition will assist both our Dental Care Plan and DMA. The more competitors, the more ubiquitous the product will become, the greater the acceptance, and the more momentum as more members and dental practices join the bandwagon. DMA has the first mover advantage, and perhaps most importantly has unique technology behind it.

DMA's competitors are operating old school, labour intensive, paper-based business models, and we believe they will not be able to cope or compete. DMA is uniquely scalable, and stands poised to dominate the market. We are very excited about the potential of our investment in DMA.

We are also proud of the progress being made toward several of our goals through our \$1 a day Dental Care Plan. I mentioned four of these in my end of year letter to shareholders, however they are worth reviewing:

- Firstly, to make dentistry affordable and available to many more Australians.
- Secondly, to deliver essential dental care to people whose problems would lead to serious medical issues if left untreated.
- Thirdly, to create an annuity-type income for 1300SMILES in the form of ongoing membership fees.

- And fourthly, to create an additional flow of revenue for our dentists and 1300SMILES as and when Dental Care Plan members undergo more complex procedures.

The closure one year ago of the CDDS makes the achievement of the first two of those objectives even more urgent and important. In addition, the large proportion of the Australian population (about 70%) that does not go to a dentist until they have an emergency is a national embarrassment. We are all either a part of the problem or a part of the solution, and we are determined to be a part of the solution.

The next key plank in our partial solution to the national dental crisis is our public private partnerships. We are delighted to have partnered with the Queensland government in reducing the dental waiting lists across the State.

As an indicator of our contribution on this front, the Queensland government reported that there were almost 2,600 patients in the Townsville region in February who had been waiting for over 2 years to see a dentist. By September, largely thanks to our efforts, that number was reduced to just 349. That is good progress, but the list is still too large and the wait is still too long. Much more needs to be done.

I would also pause to note that this is an example of doing well by doing good. The work carried out on behalf of the Queensland government is done on terms agreeable to our company and our dentists, and supports an additional increment of activity profitable to both the company and our dentists.

The closure of the CDDS creates a future public health problem, not yet borne out in those statistics. It will push many people toward dental care plans or onto State public dental waiting lists. The State government needs to not just continue its efforts but increase them, otherwise the lists will blow out and become unmanageable again.

We are pleased that the Queensland government has not just listened, but acted. We intend to be an ongoing part of the solution, and will continue to work with governments at all levels to improve access to oral health care.

At the commonwealth government level, CDDS was partly replaced by what is now known as the CDBS, being the Child Dental Benefits Schedule, which will commence on 1 January 2014. The CDBS replaces the Medicare Teen Dental scheme.

The commonwealth government reports that around 1.3 million teenagers are currently eligible for the Teen Dental scheme, whereas the CDBS is to provide access to benefits for basic dental services to around 3.4 million children aged 2 to 17 years. The budget allocation for the CDBS is \$2.7 billion over 6 years. Only a third of eligible teenagers took up the teen dental vouchers, so we are positioning our practices to ensure that as many eligible children as possible in this larger age bracket receive their entitlements.

The last year has been one of enormous challenges. Looking back, it has been a remarkable year, filled with many good things. Among other things, the last year will be remembered as the year that \$1 a day dental plans were introduced to Australia.

I look forward to next year with enthusiasm and an even deeper conviction that we have built this company on correct principles. Timeless principles such as hard work. Principles such as sticking to our knitting yet with innovation. Principles such as the dual pursuit of acquisitions and organic growth, which has allowed our company to post robust, positive, sustainable results despite the significant turbulence around us.

I thank you for your support through our first nine years as a listed company, and I thank our many employees and associated dentists for their hard work in delivering these results to you.

Daryl Holmes  
Managing Director