

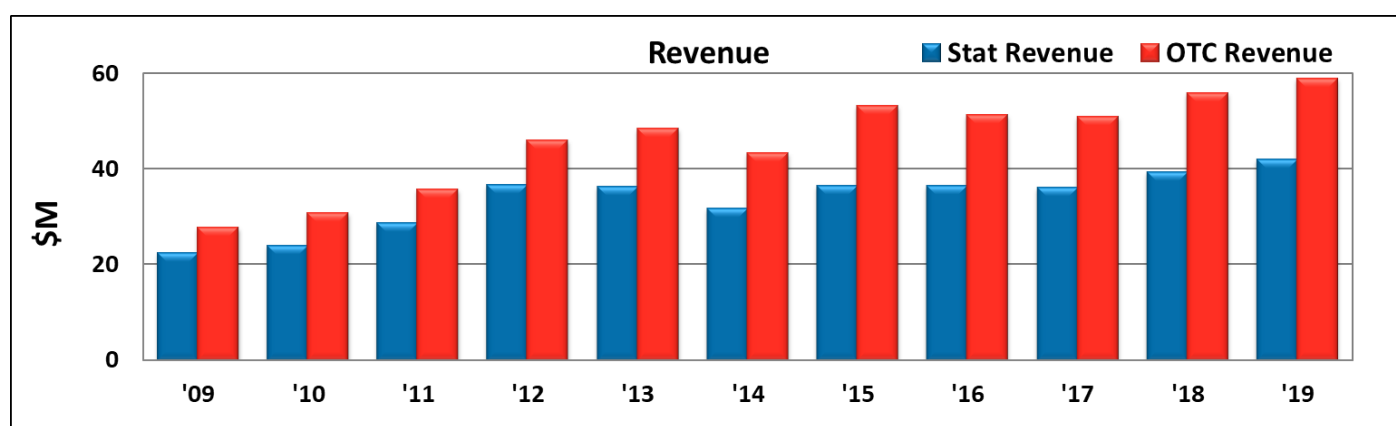
Dear Shareholders,

I am pleased to present our accounts for the full year ended 30 June 2019.

Our results for the year show solid progress on all of the important measures. These comforting if unexciting results mask a number of important developments which I will discuss farther along in this letter.

Financial results for the year ended 30 June 2019

- Revenue (Over-the-Counter) up 5.5% to \$58.9 million
- NPAT up 1.8% to \$7.8 million
- EBITDA up 1.4% to \$13.3 million
- Revenue (Statutory) up 6.6% to \$42.0 million
- Earnings per share up 1.8% to 32.8c
- Dividends per share up 4.2% to 25c



Reconciliation of OTC Revenue (non-IFRS) to Statutory Revenue per (Financial Statements)											
	'09	'10	'11	'12	'13	'14	'15	'16	'17	'18	'19
OTC Revenue (\$m)	27.6	30.7	35.7	45.9	48.5	43.3	53.2	51.4	51.0	55.8	58.9
Less amount retained by self-employed Dentists (\$m)	5.3	6.8	6.9	9.2	12.3	11.5	16.6	14.9	14.8	16.5	17.0
Statutory Revenue (\$m)	22.4	23.9	28.7	36.7	36.2	31.8	36.6	36.5	36.2	39.3	42.0

“Revenue” in the chart above is the Revenue we report in our statutory accounts. “Over-the-Counter (OTC) Revenue” is a measure which captures the full value paid by patients for all services rendered. OTC Revenue gives a clearer indication of the scale of our business. The difference is that “Revenue” excludes the portion of patient fees retained by self-employed dentists.

Dentist mix

The great majority of the dentists who operate within 1300SMILES are self-employed. These dentists pay fees to 1300SMILES for the facilities and comprehensive services our company provides. These fees are included in our Statutory Revenue.

A variable but always smaller number of dentists are employees of the company for various reasons, usually only for limited periods. In the end their contribution to our profit is much the same as that of self-employed dentists, but the fee income generated by employed dentists works its way through our accounts in a different way.

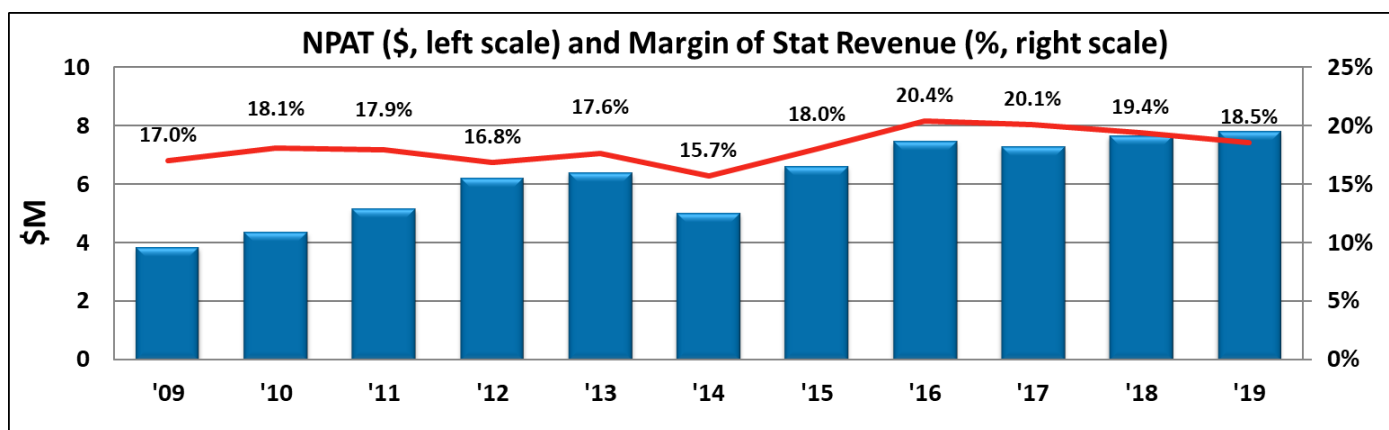
In the case of employee dentists, we book the entire amount paid by patients to Statutory Revenue and then later recognise the salary and other costs of those dentists as employment expense.

We manage the mix of dentists to ensure the best results for our patients and our dentists, not for accounting results. In the 2019 year the pendulum swung toward a slightly larger number of employee dentists, resulting in a noticeable increase in employee benefit expense. This is part of the normal ebb and flow.

Margins

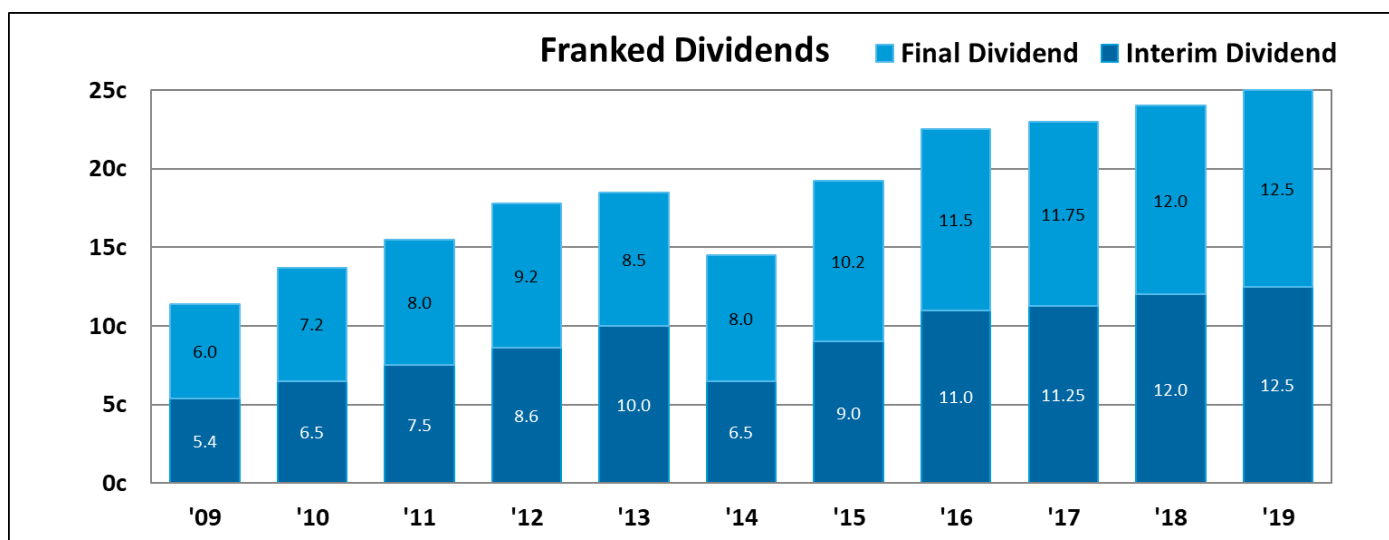
One measure your board follows closely is that of our operating margin as a percentage of Revenue. This figure declined slightly in the current year's accounts, down a bit less than 1% on OTC Revenue and a bit more than 1% on Statutory Revenue. Maintaining these margins is a high priority for management at every level. A careful review of all of the elements contributing to this slight decline convinces me that there is no underlying problem here, but you can be sure that we will all remain focussed on this measure.

During the latter part of the year we acquired and integrated a number of new facilities. These periods of integration always place some downward pressure on margins as it takes us a few months to bring new operations to the level of efficiency acceptable to our company.



Dividend policy, franking credits

The political debate over the tax treatment of franking credits seems to be over. This reassures us that we can stick with the dividend policy to which we have been faithful over our entire history as a listed company: shareholders should participate in our business as true owners. As our business delivers consistent positive cash flow, it remains our policy to pay out a significant portion of our after-tax income as franked dividends.



For the current year the dividend payout ratio is 76%, near the high end of our target range of 60-80%. In setting this year's dividend the board of directors has considered all of the following key measures:

- the quality of our business, as measured by our margins and other factors, is solid and stable
- we have a significant cash reserve
- we have a modest level of debt drawn exclusively for the acquisition of productive assets
- we have established access to the capital needed for any acquisition we would conceivably choose to pursue, both through existing lines of credit and access to the equity markets
- our management team is robust, capable, experienced and stronger than ever before
- this year's dividend increase keeps our dividend within the intended payout ratio range and does not constrain our ability to pay increasing dividends in the future.

Mergers & acquisitions

Our accounts include significant amounts expended on due diligence, legal and accounting services which have not yet led to events which we can announce to the market. I share the impatience of all shareholders to see some results from these efforts, but I would remind shareholders that this sort of activity is a permanent part of our commitment to grow and to lead in our industry. This sort of expenditure yields results we can announce only now and then, but these efforts are always essential to the ongoing improvement of our competitive position.

Industry consolidation

I believe that 1300SMILES is in an extremely strong position to make the most of a major new wave of consolidation which appears to be heading our way.

I confess that ten years ago I thought that the first and biggest wave of consolidation in the dental industry would have been well and truly finished by now. Things have not turned out the way we imagined they would back then, but our decades of careful management have enabled 1300SMILES to cope with the surprises thrown up along the way.

After all these years, about seventy percent of dental services in Australia are still delivered by dentists in solo practises and very small partnerships. The business case for such structures keeps getting weaker as stricter regulatory and compliance requirements and increasing staff and facilities costs collide head-on with the fact that the average solo dentist's share of the market is flat or shrinking.

This situation is perfectly clear to most dentists, especially those with more than a few years of practise ahead of them. This is one of the reasons why our ongoing organic growth--fuelled by attracting more dentists to practice in our established facilities--remains solid.

The coming wave of activity, I expect, will bring a new twist: consolidation of the consolidators. This is a phase in which I believe the unique advantages enjoyed by 1300SMILES will play a big role.

You'll recall that 1300SMILES became the first dental service organisation ("DSO") to build visibility in the market when it listed on the ASX back in 2005. Since then you've heard me complain from time to time about certain dental consolidators who imagined they could copy or vary the superficial aspects of our business model without putting in the decades of work necessary to get it right.

Industry observers can now point to a number of other DSOs and aggregators, some structured as listed companies, some controlled by private equity firms, and some assembled by opportunists keen to cash in on deals they had expected to turn over quickly and long ago. The results achieved by the many organisations which have sought to copy our business have been mixed, to say the least. A few, sadly, have done so poorly as to risk tainting our entire industry.

But enough of that. Let's focus on the fact that 1300SMILES is arguably in the strongest possible position to take advantage of the opportunities bobbing up all around us.

First, we have an unbroken fifteen-year history as a profitable listed company paying growing fully-franked dividends which have marched ever upward. This is a record none of the other DSOs can even approach.

Second, we have exercised great restraint during times when our industry has gone silly. Just a few years back I reported to shareholders--with regret but without apology--that our acquisition of additional dental practises had slowed nearly to a halt. It did so because other players in the industry had begun acting irrationally, in my view, paying too much for dental practices. We stuck to our commitment to make acquisitions only at prices which would deliver certain benefits to our shareholders, and we declined to buy growth for its own sake. As frustrating as this was for a few years, it's worked out well for us.

Our company now approaches the next great wave of consolidation with a low level of debt, a significantly expanded but largely undrawn bank facility of \$50 million, and access to equity capital from a number of keen major investors.

Long term investors would know that we are extremely careful about expanding the base of issued shares in our company. This history of keeping the share register tight is evidence enough that we would only consider a further capital raising if our board can be convinced that such a move would benefit all existing shareholders.

Long term investors would also know that 1300SMILES is very careful about taking on debt. This conservative approach enabled us to pass through the Global Financial Crisis of 2007 and 2008 without missing a beat.

It also enabled us to work our way through the great impact on our entire industry resulting from the cancellation in late 2013 of the Chronic Disease Dental Scheme, a surprise move from the federal government which shrank the entire Australian dental industry by 20% at a single stroke and blew a hole in our earnings and dividend for the 2014 financial year.

That financial year brought us to what I call the "Dental Fiscal Cliff." In addition to a government-induced drop in revenue across the industry, Australian dental schools starting graduating record numbers of new dentists while the number of foreign-trained dentists arriving in Australia was as high as ever. The 2014 year was a pretty stern test, and I'm proud to say that our response did the company proud and served shareholders well.

1300SMILES was able to respond to these multiple challenges thanks to our innovation, resilience, and conservative financial management. We created new ways to make dentistry affordable while protecting returns to shareholders. The lessons we learned from this trio of troubles back in 2014 are still delivering benefits today.

We owe a lot to our careful and conservative financial management. But we are ready to act decisively and at scale when the right opportunity arises.

YWAM's continuing great work

I haven't mentioned Youth With A Mission in my last few letters, but I'll do so again now because YWAM's work is just so important and inspiring.



The YWAM organisation is in many ways like the best employee you've ever known: the one for whom nothing is a problem, who never comes back and whinges about why something can't be done, or why it will take too long--the one who sees what needs doing and just gets it done, no matter what.



YWAM Medical Ships recently passed an impressive milestone, having delivered 1.5 million medical, dental, and training services to our otherwise ignored close neighbours in Papua New Guinea. YWAM's inexhaustible volunteers--including, I'm proud to say, many 1300SMILES people, myself included--provide critical services and alleviate real suffering, day after day, year after year. I am as proud as ever of our association with YWAM and I commend YWAM to you without reservation.

Thank you

As always, I note that our business only exists thanks to the support of our many patients throughout Australia. This support in turn results from the quality care delivered by our dentists, dental support staff, and practice and business management teams--thank you to all of you. Finally, I thank our shareholders for your continuing support.

Dr Daryl Holmes OBE, B.D.Sc (Hons.)
Managing Director

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.