

Dear Shareholders,

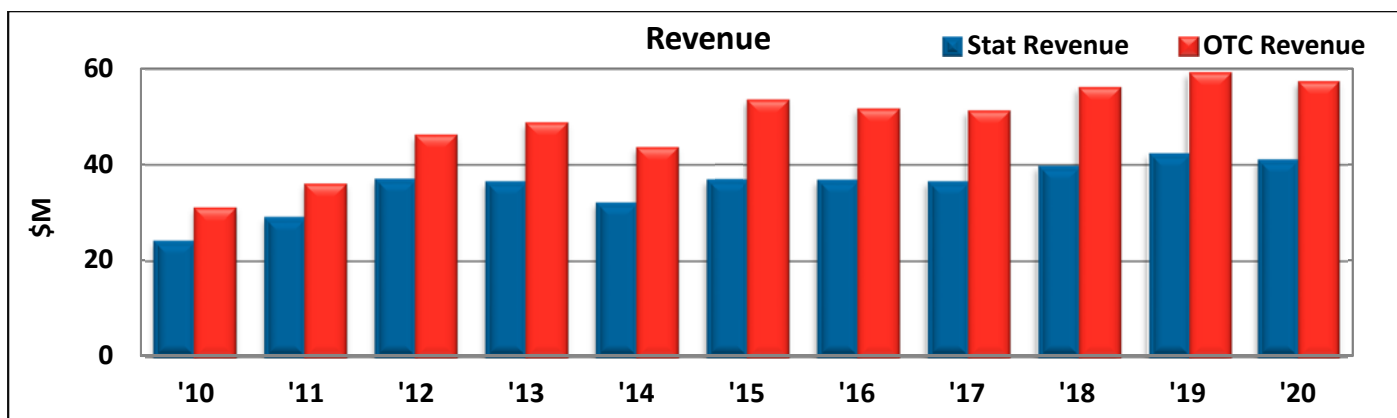
Flood, fire, plague. Since our company was first listed on the stock exchange in 2005, I have written thirty-one shareholder letters to go with our interim and final reports. Along the way there have been many surprises, but never before have we seen such startling change as in the year ended 30 June 2020.

The good news is that the COVID-19 disruption, while a severe test of our operations, has allowed the true strength of our business model to shine through and highlighted the ability of our team to cope with and respond positively to challenges. We have emerged from a lengthy shutdown with a business that has rebounded to higher levels of revenue and profit than ever before. In addition, the rationalisation and consolidation of the dental industry have been greatly accelerated, with many weaker players simply leaving the market. I'll address the details later in this letter.

Financial Results for the full year ended 30 June 2020

Our revenue was greatly reduced during the period of maximum economic restriction. Level 2 and Level 3 restrictions applied from 23 March to 11 May 2020. During this time many of our practices were closed and the activities at many others were sharply limited. Subsequent to 11 May our revenue rebounded sharply, with the month of June 2020 delivering our highest monthly revenue ever, by a big margin.

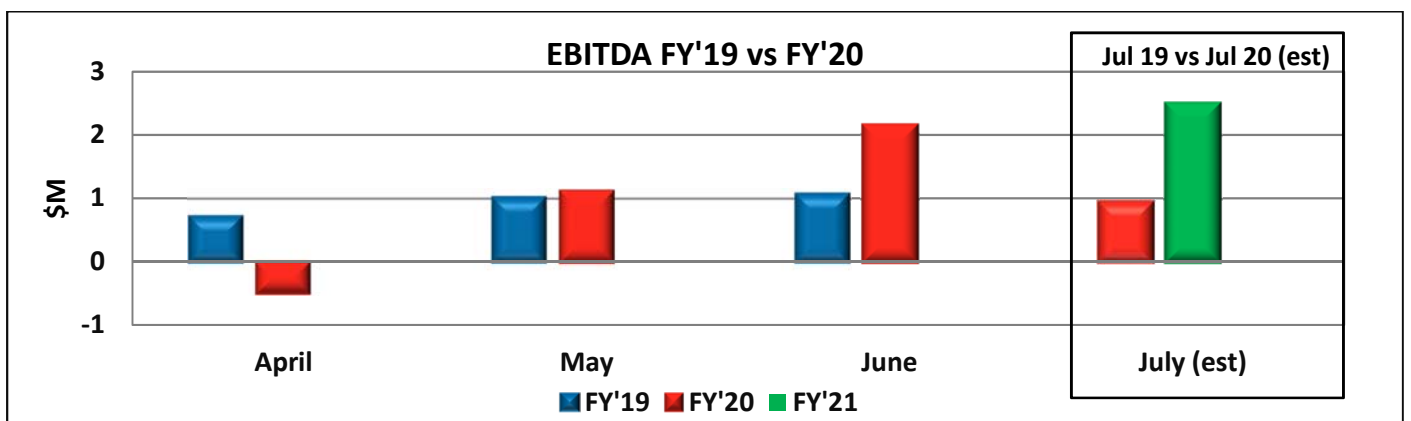
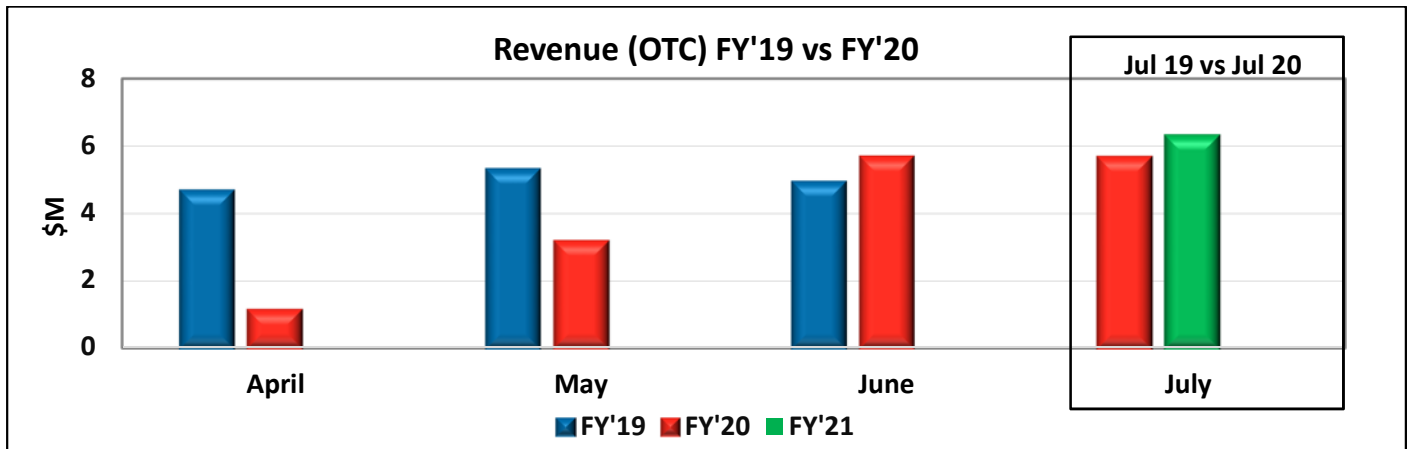
- Revenue (OTC) down 3% to \$57.1 million
- EBITDA up 22% to \$16.2 million
- NPAT down 8% to \$7.1 million
- Full year dividend up 3% to 25.75c
- Revenue (Statutory) down 3% to \$40.7 million
- NPBT down 9% to \$9.8 million
- Earnings Per Share down 8% to 30.2c
- Net Bank debt down 3% to \$8.3 million



	'10	'11	'12	'13	'14	'15	'16	'17	'18	'19	'20
Revenue (OTC) (\$m)	30.7	35.7	45.9	48.5	43.3	53.2	51.4	51.0	55.8	58.9	57.1
Less amount retained by self-employed Dentists (\$m)	6.8	6.9	9.2	12.3	11.5	16.6	14.9	14.8	16.5	17.0	16.4
Revenue (Statutory) (\$m)	23.9	28.7	36.7	36.2	31.8	36.6	36.5	36.2	39.3	42.0	40.7

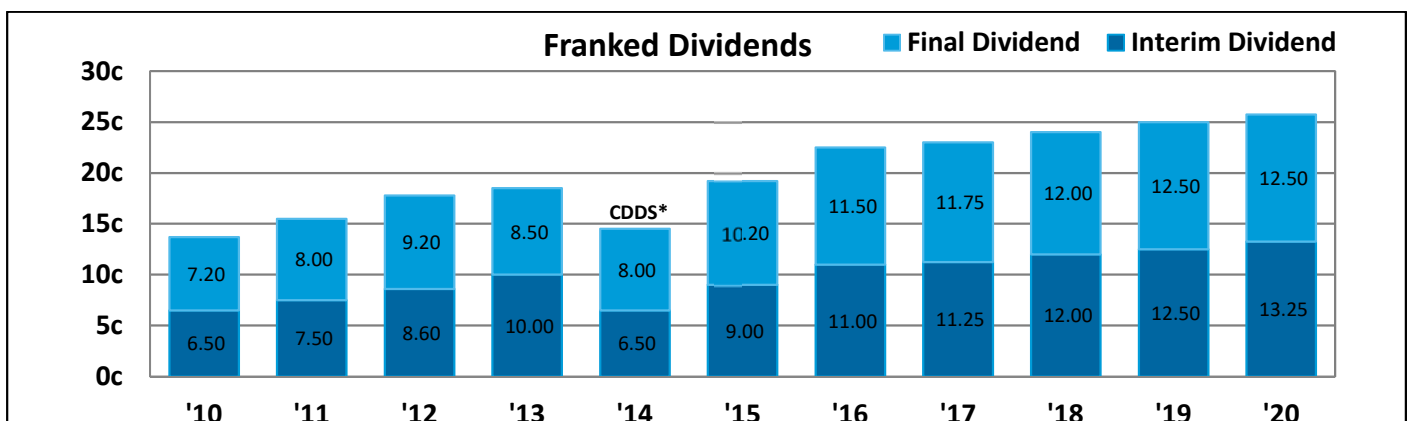
The results for the quarter, the second half, and the full year mask the fact that we've been through a terrible spell which extended over several weeks, followed by an extremely positive period which lasted right to the end of the financial year and has continued without pause through the end of July.

On a quarterly basis, revenue in 2020 exceeded revenue in the previous year in each of the first three quarters. Over the first three quarters, revenue was up by more than 7% over the previous year. All of the COVID-19 interruption was captured within the final quarter of the year, delivering the negative year-on-year changes shown below.



Dividend

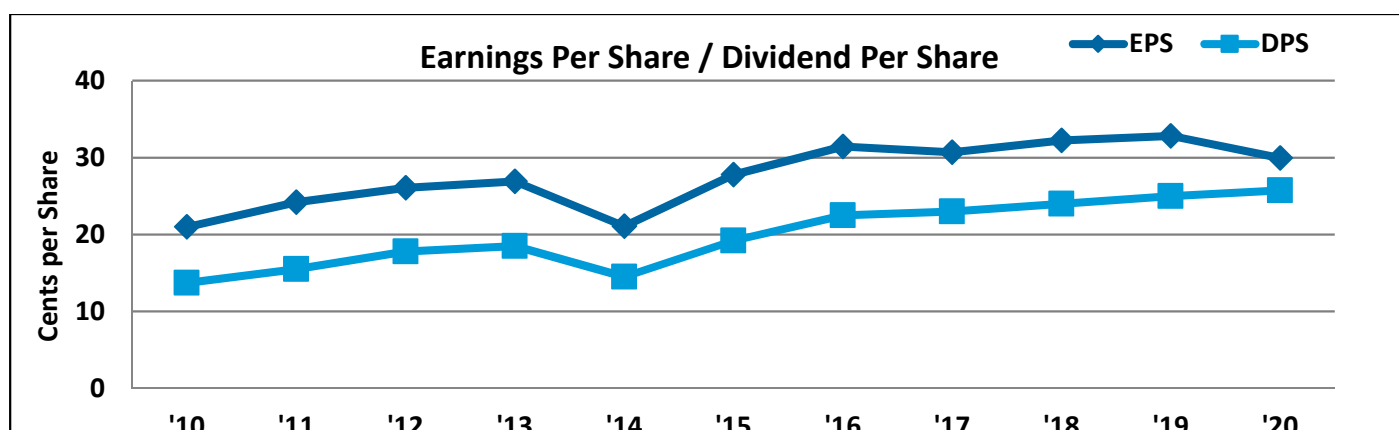
The final dividend has been set at 12.5c per share, equal to the previous year's final dividend. This brings the full year dividend payout to 25.75c per share, an increase of 3.0% on the previous year.



*Chronic Disease Dental Scheme (CDDS)

Many other ASX-listed companies have suspended the payment of dividends in response to COVID-19, and some have even withdrawn previously announced dividends. In contrast, our strong finish to the financial year validates our board's decision to honour our commitment to treat our shareholders as our partners. At a time when many investors have been severely impacted by COVID-19, we are delighted that we are able to provide the safe and strong returns upon which we have built our relationship with shareholders.

As I have mentioned in previous shareholder letters, the board of 1300SMILES regards the dividend as not only the reward to which shareholders are entitled, but also as a key means of communicating with shareholders about the state of our business. While the COVID-19 pandemic had a negative impact on many of our key metrics in the 2020 year, we believe that the stresses imposed on our business have highlighted some of our real strengths. More importantly, we believe that the impact of the pandemic on the dental industry has put us in a stronger competitive position, something I will address further below.



Testing our business

Long term shareholders know that we have always tried to make our company's business as resilient as possible. We never know what's coming next, so we just aim to make sure that our business is sturdy enough to resist known and unknown challenges.

Sometimes it seems that as we get better at reinforcing our defences, the challenges get bigger and come faster.

In 2008 we saw a big collapse in the share market. This didn't have any direct effect on dentistry, but it made consumers nervous. People sometimes consider their dental health to be discretionary, and we felt this in our revenue. This slowed our progress, briefly, but we came back stronger than ever.

In 2013 the commonwealth government abruptly cancelled the Chronic Disease Dental Scheme (CDDS). Without warning a billion dollars (about 20% of the annual revenue of the ENTIRE Australian dental industry) disappeared overnight. That led to the only time we have had to decrease our dividend. Our full-year dividend for the 2014 year was reduced to 14.5c per share. Since then our dividend has grown by 78% to the current year's 25.75c.

In 2018 Queensland suffered floods greater than any seen in the modern era. All of our practices were sensibly located above the high water, but for a while it didn't make any difference because no one could actually get to several of these sites for a week or more. Many of our dentists and staff suffered real personal losses, but they got straight back on the job, and our business powered through. Looking back over our accounts, the floods had only a minor effect on our results.

So who saw 2020 coming? We all know that something is always headed our way, and I'm proud to say we were as ready as we could have been. Fortunately, our practices were out of the way of the terrible summer bushfires in southern Australia. All our practices were closed for a few to several weeks between March and May 2020 in response

to COVID-19. By June, though, all our facilities were open, and our revenue in the last month of the financial year was significantly up on June 2019. This trend has continued through July 2020.

I take my hat off to our dedicated and resilient staff and dentists who proved once again that they're willing to dig in and get the job done, no matter what obstacles are thrown at us by the economy, the government, or the natural world. We have no idea what challenge is coming next, but our business has been tested in many ways and our terrific team has proved equal to the challenge every time.

Our competitive position

I believe that the events of the past few months have helped to improve our competitive position considerably.

First of all, our facilities inspire confidence in our patients. Our practices are bright and clean, obviously sanitised and disinfected to the highest standard. Our scheduling systems mean that patients spend minimal time in our waiting areas. Our equipment is modern and professionally maintained. We were equipped to prevent disease transmission long before COVID-19 came along, and the presentation of our facilities is reassuring to patients.

Since June we have enjoyed an unprecedented flow of both returning and new patients. Why so many new ones? I speculate that the presentation of our facilities gives people comfort. I speculate that many people who have previously not prioritised their dental and overall health, have reconsidered their life priorities. I also speculate but cannot yet measure another effect of COVID-19: it appears that a number of older dentists have kept their practices closed while they consider whether to resume operations at all.

Many sole practitioners and small partnerships have simply not re-opened. One has to imagine that older dentists, especially those with other elevated risk factors for whom COVID-19 exposure is more dangerous, or who are no longer up to maintaining older fitouts to current disinfection standards, simply won't return to practice. I see this delivering opportunities to a business like ours, which is designed to allow old and young dentists alike to do what they are good at—dentistry—and leave the management of the business to us.

Along with the flood of new patients, we have also enjoyed an unprecedented stream of applications from qualified dentists wishing to join our practices. From our discussions with these applicants, the big motivations are our proven ability to generate a flow of patients and the better career path and lifestyle available within 1300SMILES than as an associate in a one or two dentist practice.

COVID-19 exposure

As of this writing, the serious COVID-19 outbreaks in Australia are concentrated in high-density, low-income centres in Melbourne and to a lesser degree in Sydney. We have no company facilities located in or near any of the current hot spots. The overwhelming majority of our patients, dentists, and staff live in the sort of suburban settings that have so far avoided the worst of the pandemic.

In addition, most of our facilities are located in Queensland. As a state, Queensland has performed well in response to the pandemic. Queensland has a higher proportion of its population located outside its capital city than any other state. As we've seen so far, the structure and design of suburban and regional centres make it easier to resist widespread infection.

None of this adds up to a guarantee that the pandemic won't flare up further in ways that affect our business, but as the governments of Australia and Queensland continue to learn from mistakes made elsewhere, we have some cause for cautious optimism. At the practice level we remain fierce about enforcing best practice infection suppression; these practices are updated as new and better information comes to hand.

We absolutely will not hesitate to restrict any operations where there is a threat to our patients, staff, or dentists.

Change to AASB-16 Leases

Starting with the interim report for the current year we have been required to adopt the change to AASB 16 Leases.

This has no effect on our cash flow or any other practical aspect of our business, but it has a significant effect on the way our accounts are presented. The major effect is that of decreasing our rental expense (for accounting purposes only) and increasing our lease depreciation expense and finance costs.

These changes in turn affect the calculation of EBITDA, our Earnings Before Interest, Tax, Depreciation, and Amortisation. On identical real results, our EBITDA is now higher than it was before AASB-16 Leases. For the purpose of enabling comparison to previous reports, we provide the following comparison of our AASB-16 Leases results (as used in these accounts) to our pre-AASB-16 Leases results (as used in accounts prior to the 2020 year).

	FY'20 \$'000	FY'19 \$'000	Change
EBITDA	16,177	13,283	21.8%
Rent expense	(2,906)	-	-
EBITDA (pre-AASB 16 Leases)	13,271	13,283	-0.1%

	FY'20 \$'000	FY'19 \$'000	Change
Net profit before tax	9,786	10,787	-9.3%
Depreciation of right of use assets	2,867	-	-
Lease interest expense	277	-	-
Rent expense	(2,906)	-	-
Net profit before tax (pre-AASB 16 Leases)	10,024	10,787	-7.1%

Practice acquisitions

During the 2020 year we acquired established multi-dentists practices in Gatton and Laidley both in Queensland. While none of these acquired practices has a material effect on our results, all made positive contributions to our revenue and profit for the year, and all meet our operating efficiency standards. We disposed of two smaller operations during the year. Given the scale of our business, such sales are a normal part of our business as we continue to refine our operations and our allocation of resources.

Thanks

Finally, 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 provided by our dentists, dental support staff, and practice and business management teams – thank you to all of you; my admiration for your resilience, professionalism and care has grown even more this year. Finally, I thank our shareholders for your continuing support.

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

Authorised for release to ASX by the 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, 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.