

2020 AGM – Managing Director's Address

26 November 2020

Good morning Shareholders,

Every year at this time I face the big job of bringing shareholders up to date on an entire year's worth of activity.

One year ago, remember, none of us had ever heard of COVID-19. None of us looked ahead to a year in which all of our dental practices would be shut down for at least a few weeks and some of them for much longer.

Nor did any of us look ahead to imagine the enormous rebound in business activity which would follow the two months of maximum disruption in April and May 2020.

I addressed the effects of COVID-19 and our company's response to it in great detail in my letter accompanying the 2020 Annual Report. I recommend that letter to any shareholder who wishes to understand our company and how we respond to such stresses. Because that letter dealt with COVID-19 comprehensively I won't go over all that history again in this address.

Today, in late November, we're almost halfway through an entirely new year, a year which has given us many reasons to be optimistic.

Most strikingly, our Revenue has rebounded sharply since the COVID-19 interruption. The monthly results from our current operations, on all significant metrics, are the best ever.

I refer you to the chart comparing 2020 Monthly Over-the-Counter (**OTC**) Revenue to that of 2019. In March, April, and May of 2020 OTC Revenue was down sharply on the previous year, a fact which should come as a surprise to no one.

What may be surprising--and which I find enormously satisfying--is the degree to which monthly OTC Revenue has rebounded to new levels well above those of the previous year. This rebound became apparent in June 2020 and has continued.

For the first quarter of the current financial year our OTC Revenue is up 15% on the same quarter in the previous year. Our Same Store Sales growth for the first quarter is up 16%. These trends continued in October 2020 and have continued through today.

Let's pause for a moment on some other metrics for 1Q'21 as compared to 1Q'20. Our EBITDA is up 88% (excluding the boost from JobKeeper). If we include JobKeeper EBITDA is up a remarkable but less meaningful 150%.

Compared to the previous year's first quarter, our Earnings Before Income Tax, Profit Before Tax, and Net Profit After Tax are each up 200%.

As I've mentioned JobKeeper, I'd like to address an issue which is important to me personally. Some of you will be aware that our company, along with myself, copped a great deal of public criticism for paying a dividend in respect of a period in which we received the JobKeeper subsidy.

A number of media outlets found it especially convenient to run with the story because the total subsidy we received was similar to the total value of the final dividend declared. This simplistic story suggested there was something improper about paying a dividend while receiving government support.

I'm here to tell you this: our company pays dividends because it has refined its business over decades to deliver secure returns to its shareholders. We were able to declare and pay a final dividend because of all our hard work over many, many years.

Our company has weathered periods of adversity many times before. My last letter to shareholders commenced with the words "flood, fire, plague". JobKeeper was a good policy and we're grateful for it, but it did NOT pay our most recent dividend.

The JobKeeper program helped us directly, by assisting us to keep staff on the payroll through the shutdown period. We were then able to open right back up and start generating new and higher levels of revenue immediately.

JobKeeper also helped us indirectly, by keeping thousands of other employees in unrelated businesses on the payroll. Many of these people are our patients.

There's no way any government subsidy can ever be exactly the right size. Such schemes will always provide too much assistance to some, not enough to others. JobKeeper wasn't perfect but it played a role in carrying the economy through a deeply troubled spell, and we're grateful for that.

Since last year's AGM the competitive landscape has changed to a startling degree. Most striking is the fact that there are now fewer big players actively pursuing acquisitions in the dental industry than at any time in the last decade. Different companies have different reasons for backing away from this market, but I suspect the common theme is this: it's harder to acquire, integrate, and operate dental practices than it might look from the outside.

Here at 1300SMILES we're experts at exactly these processes. We're happy that our core business is hard, because if it were easy everyone would be doing it.

At the moment we have a number of practice-level acquisitions in the works, including our third practice in Bundaberg which was announced on Tuesday, 24 November 2020. We will announce further acquisitions as soon as the contracts are signed, but you can be sure of one thing: we will not over-pay. This has always been our posture.

In the current environment, we expect we will complete a bigger proportion of all potential acquisitions because it is now less likely that we will face competition from other buyers who might be willing to pay more than we think a given practice is worth.

When such players are too active, we simply back out of the market, knowing we'll get a chance to buy at better prices--in some cases the very same practices--in the future.

On the Mergers & Acquisitions front you'll recall that at last year's AGM we were consoling ourselves over the fact that we did not succeed in acquiring the Australian business of NZ-listed Abano Healthcare Limited, Maven Dental. Since then, however, our M&A activities have proceeded quietly but with great energy. We can never say much about this side of the business before any deal is absolutely final, so for the moment I'll ask you to accept my assurance that we continue to pursue many opportunities.

In every year we have some special reason to thank our patients, our dentists, our dental staff, and our administrative staff. This year we thank all of you for the many ways in which you enabled us to weather the COVID-19 storm and bounce back with such vigour. We'll all remember this year for a long time; I will remember it as a year in which my gratitude to all of you reached a new high.

I thank you all for attending and I look forward to an informal chat with any of you who wish to stay on after the close of the formal meeting.

Dr Daryl Holmes
Managing Director

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