

**Analyst**

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## Pacific Smiles Group (PSQ)

### Outlook for FY16 remains positive

**Recommendation**

**Buy** (Hold)

**Price**

**\$2.20**

**Target (12 months)**

**\$2.48** (previously \$2.51)

**Expected Return**

Capital growth	<b>12.5%</b>
Dividend yield	<b>2.6%</b>
Total expected return	<b>15.2%</b>

**Company Data & Ratios**

Enterprise value	<b>\$319.0m</b>
Market cap	<b>\$334.4m</b>
Issued capital	<b>151.99m</b>
Free float	<b>38%</b>
Avg. daily val. (52wk)	<b>\$177,736</b>
12 month price range	<b>\$1.755 - \$2.67</b>
GICS sector	
<b>Healthcare Equipment and Services</b>	

Disclosure: Bell Potter Securities acted as Co-Manager for PSQ's IPO in November 2014 and received fees for that service.

**Price Performance**

	(1m)	(3m)	(12m)
Price (A\$)	2.35	2.20	1.80
Absolute (%)	-9.79	-3.64	18.11
Rel market (%)	-10.74	-4.36	20.06

**Absolute Price**



**PSQ on track to meet its new centre target for FY16**

4 new centres have been opened in 1HFY16 to date, with 1 scheduled to open next week, bringing total new centres added in 1HFY16 to 5. We estimate that PSQ will open 9 new centres in FY16 and hence it is more than half way through meeting our forecast. PSQ will be operating 54 dental centres in Australia by end of Dec'16. Parramatta centre acquired from Medibank ahm has now been relocated, with potential for acquired Haymarket centre to also be relocated in 2HFY16. Of the 5 new centres, 3 are located in Queensland (QLD). PSQ will now have 7 centres in QLD. In our view, QLD represents further expansion opportunities for the group and we expect the company to further increase its presence in this market in future.

**Updated guidance for FY16**

PSQ has maintained its previous EBITDA guidance for FY16 (range \$20.3m-\$22.3m) however, expects it to be at the lower end of this range. New centre target of 8-10 maintained. Same centre patient fees growth guidance of >5% maintained, however expects 2H16 to be stronger than 1H16 (contrary to last year trend). We have updated our revenue assumptions and reduced our margin forecasts. Net result is downgrade of 3.9% to FY16 NPAT and less than 2% downgrade to our FY17 & FY18 forecasts.

**Switching to Buy on Valuation, PT reduced to \$2.48**

Following the earnings adjustments, our PT has reduced to \$2.48 (was \$2.51). Based on the recent pull back in the share price and our updated valuation for PSQ, we amend our recommendation to a Buy from Hold. PSQ has made an impressive start by adding 5 new centres in 1HFY16 and we expect this roll-out momentum to continue. We continue to believe PSQ has a long growth runway ahead, backed by strong dental industry fundamentals. While, affordability of private health insurance (PHI) has been in the spotlight, raising question around affordability for dental, stats on people with ancillary cover as well as the dental benefits paid under PHI do not show any alarming signals to that effect so far.

**Earnings Forecast**

Year end 30th June	2014A	2015A	2016E	2017E	2018E
Total Revenue (A\$m)	59.1	74.9	86.5	101.5	114.2
EBITDA (A\$m)	14.5	18.2	20.7	24.8	28.4
NPAT (reported) (A\$m)	7.8	8.4	11.1	13.3	15.4
NPAT (normalised) (A\$m)	7.4	9.7	11.1	13.3	15.4
EPS (reported) (cps)	5.7	5.7	7.2	8.6	10.0
EPS (normalised) (cps)	5.4	6.7	7.2	8.6	10.0
EPS -normalised growth (%)	28.3%	23.2%	7.7%	20.5%	15.8%
PER (normalised) (x)	N/A	33.0	30.7	25.5	22.0
EV/EBITDA (x)	N/A	17.5	15.4	12.9	11.2
Dividend (incl. spl div) (cps)	11.3	6.6	5.8	7.0	8.1
Yield (%)	N/A	3.0%	2.6%	3.2%	3.7%
Franking (%)	100.0%	100.0%	100.0%	100.0%	100.0%
ROE (%)	33.8%	32.5%	26.1%	29.3%	31.1%

# Outlook for FY16 remains positive

PSQ's guidance on new centre roll out for FY16 was 8-10 centres. The company has made a strong start in the year towards meeting its target. 4 new centres have been opened in 1HFY16 to date, with another centre scheduled to be opened next week. This would bring the total new centres added in 1HFY16 to 5. We estimate that PSQ will open 9 new centres in FY16 and hence the company is more than half way through meeting our forecast.

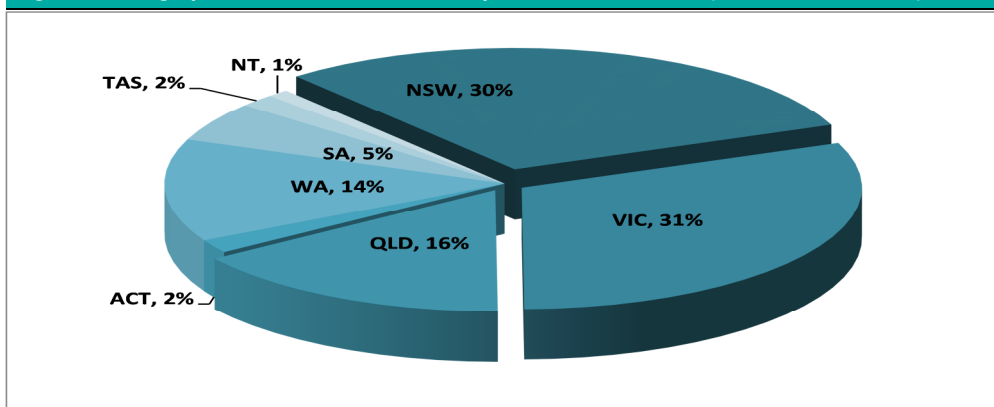
## Key Operational Updates

- **Number of centres increased to 53:** Including the 4 new centres opened to date in 1HFY16, PSQ is now operating 53 dental centres in Australia. Out of these, 46 are Pacific Smiles Dental branded centres and 7 are nib dental care branded centres. **Including the centre scheduled to open next week, we expect PSQ to end 1HFY16 with 54 centres operational.**
- **Latest centres increase PSQ's presence in QLD:** PSQ's operations are predominantly in New South Wales (NSW) and Victoria (VIC), with a small presence in Queensland (QLD) and the Australian Capital Territory (ACT).

The 3 key markets for dental services both in terms of revenue as well as supply of doctors are NSW, VIC and QLD. ACT with a large urban population and higher average income also represents a key market as evident from the fact that it has the highest FTE (Full Time Equivalent) number of dentists per 100,000 people.

**NSW, QLD, VIC and ACT together account for ~78% of the total revenue of the dental industry.**

Figure 1 - Geographic distribution of dental expenditure in Australia (State and territories)



SOURCE: AIHW

Out of the 5 new centres for 1HFY16, 3 centres are located in QLD. PSQ will now have 7 centres in QLD as of 31<sup>st</sup> December 2015. **In our view, QLD represents further expansion opportunities for the group and we expect the company to further increase its presence in this market in future.** We give a summary of PSQ's centres by geographic market in the figure below.

Figure 2 - Pacific Smiles' centres by geography (est. as of 31<sup>st</sup> December 2015)

No. of centres	NSW	VIC	QLD	ACT	Australia
Pacific Smiles Dental	25	11	7	4	47
NIB Dental	6	1			7
<b>Total</b>	<b>31</b>	<b>12</b>	<b>7</b>	<b>4</b>	<b>54</b>
<i>% distribution</i>	57%	22%	13%	7%	

SOURCE: COMPANY DATA

- **Parramatta centre acquired from Medibank ahm has now been relocated:** PSQ has now relocated its Parramatta centre to new premises. The new centre on 80 George Street started operations on 21<sup>st</sup> September. The new centre has 12 operational surgeries (down from 15 surgeries which were operational at the old site). It has 15 dentists and a range of specialists. The new Parramatta centre is PSQ's newest flagship centre for NSW.

## Trading update provided and Guidance for FY16 updated

PSQ has provided an update on how its same centre patient fees growth is tracking and updated its FY16 guidance as follows:

### UPDATED GUIDANCE FOR FY16

- **FY16 EBITDA guidance:** Previous EBITDA guidance for FY16 was \$20.3m-\$22.3m. PSQ has maintained this guidance range however, expects that EBITDA is likely to be at the lower end of this range.
- **FY16 new centre target:** New centre openings for FY16 are expected in the range of 8 to 10, consistent with previous guidance.
- **FY17 onwards new centre target:** PSQ has maintained its guidance on new centres beyond FY16. The company continues to target opening 10 centres per annum from FY17.
- **Same centre patient fees growth:** Previous same centre patient fees growth guidance for FY16 was greater than 5%. PSQ has maintained this guidance on the basis of expecting stronger same centre patient fee growth in 2HFY16 compared to 1HFY16.
- **Possibility of relocation of acquired Haymarket centre:** This is a new guidance. PSQ is exploring the possibility of relocating the Haymarket centre acquired from Medibank ahm in 2HFY16. This could result in a one-off transition cost which is not currently factored in PSQ's EBITDA guidance. We note that the size of the Haymarket centre with 14 operational surgeries is similar to the old Parramatta centre which had 15 operational surgeries. Hence we expect the relocation capex for Haymarket should also be on similar lines i.e. ~\$2.5m.

### YTD SAME CENTRE PATIENT FEES GROWTH

As of 17<sup>th</sup> November 2015, YTD same centre Patient Fees growth was +3.8%, below the FY16 guidance of greater than +5%, with key drivers being:

- 2 of the 3 centres acquired from Medibank ahm in 2014 (Parramatta and Haymarket) have performed below expectations. Excluding these centres the overall same centre Patient Fee growth would have been +6.5%.
- Same centre Patient Fee growth was -1.4% for the Newcastle/Hunter Valley region. The softness in this region seen in 2HFY15 has continued into 1HFY16. We believe consumer sentiment has been impacted in this region due to layoffs in the coal mining industry as well as insecurity in the local economy.
- YTD same centre patient fees growth was +10.3% (excluding the 2 ahm centres and ~10 centres in Hunter/Newcastle region).

## Our comments

- YTD same centre patient fees was tracking below FY16 guidance. However, the company has maintained its FY16 guidance on same centre patient fees growth expecting improvement in 2HFY16 compared to 1HFY16. We also note that last year December was a particularly strong month for PSQ. Hence, if December this year is

similarly strong, there is a possibility that 1HFY16 same centre patient fees growth can improve over the YTD +3.8% figure.

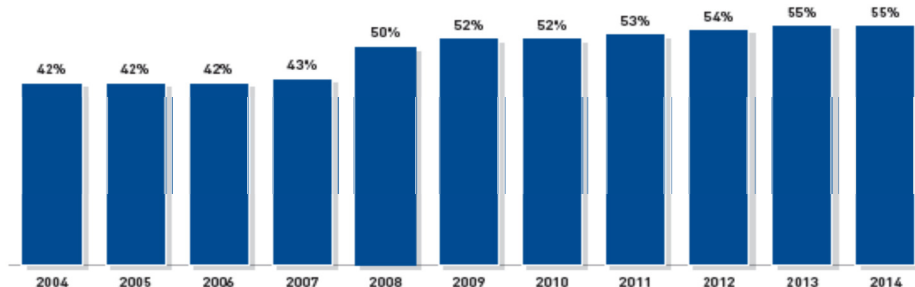
- The 2 large acquired ahm centres have not met PSQ's revenue expectations YTD. We note that the Parramatta centre has been relocated and active surgeries optimised from 15 to 12. There is also possibility that the other underperforming centre at Haymarket is relocated within the next 6 months. We believe that the relocations will help in improving the metrics of these centres and getting them closer to meeting the normal metrics of a Pacific Smiles centre. We continue to expect the economics of these centres to improve with time.
- We believe that in the short-medium term, uncertainty on consumer sentiment will remain in the Newcastle/Hunter region and performance from PSQ's centres in the region could remain patchy. We expect that new centres in other regions could potentially offset some of the softness. We see the potential for growing QLD presence to balance the Hunter/Newcastle softness in the coming years.

**In summary**, PSQ has made an impressive start by opening 5 new centres in 1HFY16 and we expect this roll-out momentum to continue. We continue to believe that the company has a long growth runway ahead, backed by strong dental industry fundamentals. While, affordability of private health insurance has been in the spotlight, raising question around affordability for dental care if people drop their ancillary cover, statistics on the proportion of people with ancillary cover as well as the dental benefits paid under private health insurance do not show any alarming signals to that effect so far. We discuss these statistics in the section below.

### Private Health Insurance statistics show no alarming trends

- **More people have private health insurance ancillary cover** which they use to pay for part of their expenditure on dental services. The proportion of the Australian population with ancillary cover has grown from 42% in 2004 to ~55% in 2014.

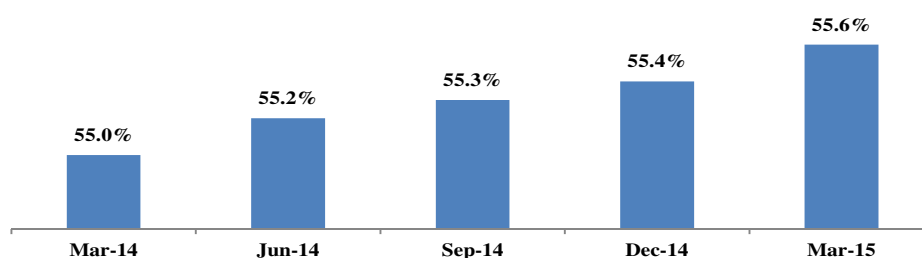
**Figure 3 - Proportion of Australian population with ancillary cover 2004-2014**



SOURCE: COMPANY PROSPECTUS. DATA SOURCED FROM PRIVATE HEALTH INSURANCE ADMINISTRATION COUNCIL (PHIAC), MEMBERSHIP AND COVERAGE MARCH 2014

Looking at the PHIAC statistics from March 2014 to March 2015, a similar trend is seen with the proportion of the Australian population with ancillary cover growing from 55% in March 2014 to 55.6% in March 2015.

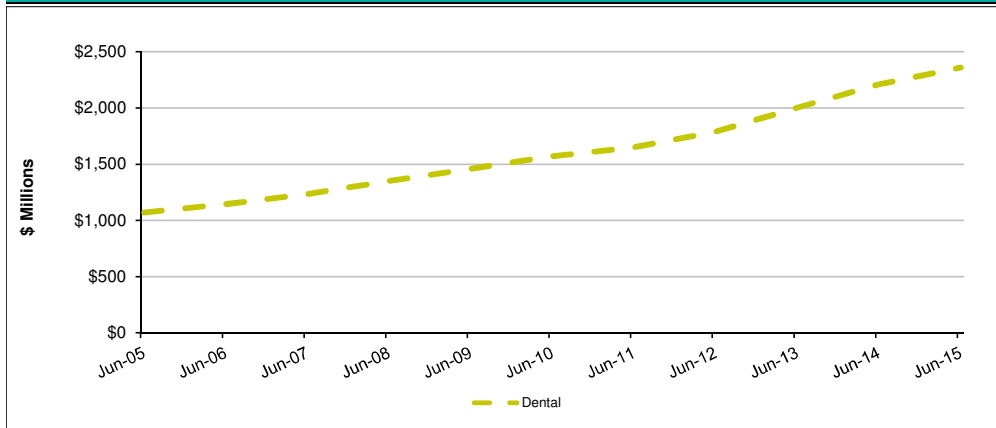
**Figure 4 - Proportion of Australian population with ancillary cover March 2014-March 2015**



SOURCE: PRIVATE HEALTH INSURANCE ADMINISTRATION COUNCIL (PHIAC), MEMBERSHIP AND COVERAGE MARCH 2015

- Growth in private health insurer dental benefits paid:** The private health insurer dental benefits paid over the last ten years (June 2005-June 2015) grew at a CAGR of ~8.2% (in line with the ~8% CAGR from June 2004-June 2014).

**Figure 5 - Private health insurer dental benefits paid annually (FY05-FY15)**



ANNUAL BENEFITS PAID CALCULATED FOR EACH YEAR ENDING JUNE 30TH

SOURCE: PHIAAC

- Dental benefits account for majority of private health insurance benefits paid by insurers:** As per September 2015 report, dental benefits paid under private health insurance made up ~53% of total private health insurance benefits. This is an increase over March 2014, where ~50% of total benefits paid under the PHI schemes with ancillary cover were for dental.

In summary, the above PHI statistics support continued demand for dental services.

# Earning Changes

We have reviewed our assumptions and forecasts for Pacific Smiles Group (PSQ) based on the trading update, new centres opened and updated FY16 guidance. This has impacted earnings and valuation.

## Key revenue assumption changes

- We have increased the number of new centre addition forecasts for 1HFY16 to 5 (was 4) and reduced 2HFY16 new centre addition forecast to 4 (was 5). Our FY16 new centre forecast remains unchanged at 9.
- We assume same centre patient fee growth estimate for FY16 at ~5.0% (was 5.1%).
- We have reduced the number of commissioned chairs forecast by 3, given the reduction from 15 active surgeries to 12 active surgeries on relocation of the Parramatta centre.
- We have reduced PSQ share of revenue from 61.5% to 61.4%.
- We have reduced our patient fees per centre contribution estimate from the Medibank ahm centres.
- We have revised our gross patient fee from new centres estimate based on the timing of centre openings. 2 centres in 1HFY16 were opened in September, 1 in late November and 2 in mid-December.

The above changes have led to a modest decrease in our patient fees forecasts from FY16 onwards, resulting in a modest decrease to our revenue forecasts for PSQ. We have updated all the three methodologies we use to forecast gross patient fees with the above assumption changes.

We summarise the gross patient fees calculated using each of the three methods below and our final revenue forecast for PSQ in the figure below:

Figure 6 - Calculation of Revenue for PSQ FY16-FY19

	2016E	2017E	2018E	2019E
<b>Gross Patient Fees forecasts:</b>				
Appointment method	140.3	167.0	186.6	206.3
Centre Maturity profile method	140.7	166.2	186.9	207.9
Contribution to fees based on timing of centre opening on 2 year view method	138.9	158.8	180.4	203.4
<b>Average Gross patient Fees using the above three methods</b>	<b>140.0</b>	<b>164.0</b>	<b>184.6</b>	<b>205.9</b>
<b>PSQ share of service revenue (%)</b>	<b>61.4%</b>	<b>61.5%</b>	<b>61.5%</b>	<b>61.5%</b>
<b>Revenue share for PSQ (rendering of services revenue)</b>	<b>85.9</b>	<b>100.9</b>	<b>113.5</b>	<b>126.6</b>
Sale of goods	0.52	0.61	0.68	0.76
<b>Total Revenues for PSQ</b>	<b>86.5</b>	<b>101.5</b>	<b>114.2</b>	<b>127.4</b>

SOURCE: BELL POTTER SECURITIES ESTIMATES

## Other key assumption changes

- Lower margins associated with the ahm centres has led to a marginal decline in our EBITDA margin for FY16.
- We have increased our new centre capex forecasts for FY16. We understand a portion of the \$2.5m cost on relocation of the Parramatta centre was spent in 1HFY16.
- Our EBITDA and EBIT margins have declined and we now forecasts EBITDA for FY16 at \$20.7m (was \$21.3m). Our revised EBITDA is at the lower end of the \$20.3m-\$22.3m company guidance, consistent with management comments.

The net result is downgrades of 3.9% to our FY16 NPAT and marginal downgrades (less than 2%) to our FY17 & FY18 forecasts.

Table 1 - Key Changes to our last published FY16-FY18 Forecasts

	FY2016E			FY2017E			FY2018E		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
Revenues (\$m)	87.5	86.5	-1.2%	102.3	101.5	-0.8%	115.1	114.2	-0.8%
EBITDA (\$m)	21.3	20.7	-2.4%	25.0	24.8	-0.8%	28.7	28.4	-0.8%
EBITDA margin (%)	24.3%	24.0%	-1.2%	24.4%	24.4%	0.0%	24.9%	24.9%	0.0%
EBIT (\$m)	16.4	15.7	-3.9%	19.3	19.0	-1.6%	22.4	22.0	-1.5%
EBIT margin (%)	18.7%	18.2%	-2.7%	18.9%	18.7%	-0.8%	19.4%	19.3%	-0.7%
NPAT -normalised (\$m)	11.5	11.1	-3.9%	13.6	13.3	-1.7%	15.7	15.4	-1.6%
Diluted EPS -normalised (cents)	7.46	7.17	-3.9%	8.80	8.64	-1.7%	10.17	10.01	-1.6%
DPS (ordinary+special) (cents)	6.05	5.82	-3.9%	7.14	7.01	-1.7%	8.25	8.12	-1.6%

SOURCE: BELL POTTER SECURITIES ESTIMATES

# Valuation Changes

## PT reduced to \$2.48

Our Price Target (PT) for PSQ is generated using a blend of PE ratio, EV/EBITDA and DCF valuation techniques. We have updated each methodology to reflect the earnings changes as well as recent market movements. We continue to use a 20% premium to peers.

The change in each valuation and the impact on the price target calculation is shown below.

**Figure 7 – Old valuation and Price Target**

Methodology	Old		
	Valuation	% weighting	Price Target
DCF	2.79	40%	1.11
EV/EBITDA	2.48	40%	0.99
PE ratio	2.01	20%	0.40
<b>Total</b>			<b>2.51</b>

SOURCE: BELL POTTER SECURITIES ESTIMATES

**Figure 8 – Change in valuation and price target**

Methodology	New (as at 18-Dec-15)		
	Valuation	% weighting	Price Target
DCF	2.74	40%	1.10
EV/EBITDA	2.44	40%	0.98
PE ratio	2.01	20%	0.40
<b>Total</b>			<b>2.48</b>

SOURCE: BELL POTTER SECURITIES ESTIMATES

The figure above shows our price target for Pacific Smiles Group is \$2.48/sh. The price target is a 12.5% premium to the current share price of \$2.20/sh and the total expected return (including the forecast dividend yield) is ~15.2%. Hence, we switch our recommendation to a Buy from Hold.



# Pacific Smiles Group (PSQ)

## COMPANY DESCRIPTION

Pacific Smiles Group is one of the largest branded dental groups in Australia. It operates full-service dental centres at 53 sites, mainly located in NSW and Victoria. It offers dentists who are self-employed the opportunity to focus on delivery of dental services rather than on administrative aspects of running a business. Dentists pay service fees to PSQ for the use of facilities and provision of services under a Service and Facility Agreement. The business has a solid growth path due to increasing demand for dental services driven by a growing and ageing population, more older Australians keeping their natural teeth, rising household disposable incomes and growing private health insurance coverage. The company has a long-term license agreement with nib to operate dental centres under the nib brand.

## INVESTMENT STRATEGY

We have a Buy recommendation on Pacific Smiles Group. Our investment thesis is based on:

**\$2.48 price target:** Our 12 month price target on PSQ is \$2.48. The price target is generated from a blend of three valuation methodologies we apply to the company: PE ratio, EV/EBITDA and DCF. The price target is a 12.5% premium to the current share price of \$2.20/sh and the total expected return (including the forecast dividend yield) is ~15.2%.

**Solid growth path ahead backed by Strong Industry fundamentals:** The outlook for the Australian dental services industry is positive with steady growth expected for the next 5 years. Industry revenue is expected to rise by a compound annual 2.5% over the 5 years through 2020, to reach \$10.3bn. Key trends which work in PSQ's favour are a) fragmented industry with no players having a market share over 5%; b) less reliant on government funding with patient paying out of pocket or through private health insurance extra cover; c) growing private health insurance coverage; and d) increasing proportion of women and part time workers in the dental workforce. PSQ has less than 2% market share of the multi-billion dollar market, with significant opportunity to grow its share.

**Clear growth strategy:** The focus of the company's business model is organic growth. Historically, the group has experienced strong organic growth via new centre openings and selective acquisitions. We expect growth to continue, driven by increasing utilisation of existing facilities and roll out of 9-10 new centres each year, in locations where supply and demand dynamics are favourable. ~37% of PSQ's dental centres have been open for less than 3 years and therefore have significant growth still left.

**Pacific Smiles is a capital light model.** The balance sheet is modest. At the end of FY15, PSQ had net cash of \$15.2m. We forecast that PSQ maintains its net cash position and funds its future growth internally through growing operating cash flow, while also maintaining its targeted 70-100% dividend payout ratio.

**3 centres acquired from Medibank ahm to drive growth:** We expect the 3 centres acquired from Medibank ahm will be a key contributor of growth. We expect the economics of these centres to improve with time, once PSQ makes operational improvements and aligns it operationally to a typical Pacific Smiles centre.

**Strong EBITDA and earnings growth:** We forecast double digit revenue and EBITDA growth from FY16, driven by increased utilisation of existing practices and roll out of new centres. We expect PSQ to deliver 3-year compound growth in EBITDA of 16.1%.

# Risks

The key risks specific to the company include, but are not limited to, the following:

- **Deterioration or loss of key insurer relationships:** Pacific Smiles has developed strategic relationships with two of Australia's largest private health insurers, Medibank Private (including ahm) and nib. The company also obtains substantial benefits from preferred provider arrangements between the PHI's and the dentists who practise from Pacific Smiles dental centres. 7 out of 53 Pacific Smiles centres are nib branded. Changes or termination of these relationships may impact patient volumes and thus earnings of Pacific Smiles.
- **Reduction in private health insurance coverage or membership rates:** Private Health Insurers (PHI) fund ~23% of dental expenditure in Australia. PHI coverage has been growing steadily. However, a worsening economic climate, change in rebate and tax incentives or increases in the private health insurance premiums may cause material reductions in the PHI membership levels. This could reduce the demand for dental services in Australia and hence affect the earnings of Pacific Smiles.
- **Termination of Services and Facility Agreements by large number of dentists:** Pacific Smiles enters into Service and Facility Agreement (SFA) with dentists who provide dental services at clinics operated by Pacific Smiles. The terms of the SFA allow dentists to terminate the agreement subject to the provision of 1 months' notice within the first year and on 3 months' notice after that time. If a significant number of dentists who contract Pacific Smiles terminated their SFA without other practitioners engaging Pacific Smiles in their place, this could adversely impact earnings.
- **Fee pressures from dentist over supply:** An increase in the number of qualified dentists relative to population in Australia, could lead to increased price based competition amongst dentists. Such an increase in price based competition could lead to fee pressures on the dental services industry over time.
- **Regulatory risk and changes to government policies or declines in Government funding:** There are a number of government policies and regulations, changes to which, may have a material impact on the performance of Pacific Smiles. Whilst government funding is low compared to other medical sectors, any funding changes by the government may lead to patients facing higher out-of-pocket expenses. This may cause the dental industry and Pacific Smiles to experience reduced demand.
- **Integration risk:** Pacific Smiles may make acquisitions of established dental centres from time-to-time (eg. the acquisition of the Dental Practice from Medibank (ahm) in June 2014). There is a risk that the acquired centres suffer patient or dentist attrition, which may impact Pacific Smiles through reduced earnings or management distraction.
- **Exposure to reduced demand in the Australian dental industry due to general economic conditions:** Although a number of dental services are non-discretionary in nature, there is a degree of economic sensitivity for certain dental services (for example, teeth whitening, dental implants or other cosmetic treatments). Pacific Smiles' future business performance may be adversely affected by a worsening economic climate in Australia. Key macroeconomic factors which could adversely impact the company's business include rise in unemployment and decrease in household disposable income in Australia.

Table 2 - Financial summary

Pacific Smiles Group (PSQ)						Share price (A\$)	\$2.20				
As at 18 December 2015						Market cap (A\$m)	334.4				
<b>Profit and Loss</b>						<b>Earnings ratios at current price of \$2.20</b>					
<b>Y/e June 30 (A\$m)</b>	<b>2014A</b>	<b>2015A</b>	<b>2016E</b>	<b>2017E</b>	<b>2018E</b>	<b>Y/e June 30</b>	<b>2014A</b>	<b>2015A</b>	<b>2016E</b>	<b>2017E</b>	<b>2018E</b>
Service Revenues	58.7	74.5	85.9	100.9	113.5	Diluted EPS - Reported (c)	5.7	5.7	7.2	8.6	10.0
Sale of goods	0.4	0.4	0.5	0.6	0.7	Diluted EPS - Normalised (c)	5.4	6.7	7.2	8.6	10.0
<b>Total Revenue</b>	<b>59.1</b>	<b>74.9</b>	<b>86.5</b>	<b>101.5</b>	<b>114.2</b>	<b>EPS growth (%) -normalised</b>	<b>28.3%</b>	<b>23.2%</b>	<b>7.7%</b>	<b>20.5%</b>	<b>15.8%</b>
Gross Profit	55.3	71.0	82.1	96.4	108.5	DPS - Ordinary (c)	4.0	5.0	5.8	7.0	8.1
Other Revenue	1.5	1.6	1.6	1.6	1.7	DPS - Special ( c )	7.3	1.6	0.0	0.0	0.0
<b>EBITDA</b>	<b>14.5</b>	<b>18.2</b>	<b>20.7</b>	<b>24.8</b>	<b>28.4</b>	DPS - Total ( c )	11.3	6.6	5.8	7.0	8.1
Depreciation & Amortisation	-3.8	-4.2	-5.0	-5.7	-6.4	<b>Yield (%) (including special div)</b>	<b>NA</b>	<b>3.0%</b>	<b>2.6%</b>	<b>3.2%</b>	<b>3.7%</b>
<b>EBIT</b>	<b>10.8</b>	<b>13.9</b>	<b>15.7</b>	<b>19.0</b>	<b>22.0</b>	Franking (%)	100%	100%	100%	100%	100%
Net interest & Other Income/(Expense)	-0.1	0.0	0.3	0.3	0.3	* Historical EPS & DPS (FY14) is calculated on the basis of shares on issue pre-IPO after 1:3 split					
<b>Pre-tax profit (loss)</b>	<b>10.7</b>	<b>14.0</b>	<b>16.0</b>	<b>19.3</b>	<b>22.4</b>	<b>Valuation ratios at current price of \$2.20</b>					
Tax expense (benefit)	3.3	4.3	5.0	6.0	6.9	<b>Y/e June 30</b>	<b>2014A</b>	<b>2015A</b>	<b>2016E</b>	<b>2017E</b>	<b>2018E</b>
<b>NPAT (normalised)</b>	<b>7.4</b>	<b>9.7</b>	<b>11.1</b>	<b>13.3</b>	<b>15.4</b>	Net profit -normalised (A\$m)	NA	9.7	11.1	13.3	15.4
One off items	0.4	-1.4	0.0	0.0	0.0	P/E ratio (on normalised EPS) (x)	NA	33.0	30.7	25.5	22.0
<b>NPAT (Reported)</b>	<b>7.8</b>	<b>8.4</b>	<b>11.1</b>	<b>13.3</b>	<b>15.4</b>	FCF per share (c)	NA	6.0	4.4	6.6	8.8
<b>Cashflow</b>						Price/FCF per share (x)	NA	36.6	49.7	33.5	24.9
<b>Y/e June 30 (A\$m)</b>	<b>2014A</b>	<b>2015A</b>	<b>2016E</b>	<b>2017E</b>	<b>2018E</b>	EV/EBITDA	NA	17.5	15.4	12.9	11.2
Reported NPAT	7.8	8.4	11.1	13.3	15.4	EV/EBIT	NA	22.9	20.3	16.8	14.5
Non-cash items	4.0	6.3	5.1	5.9	6.5	NTA per share (c)	NA	19.4	21.1	23.7	26.5
Change in Working capital	1.6	-0.2	0.6	0.4	1.1	Price/NTA (x)	NA	11.3	10.4	9.3	8.3
<b>Operating cashflow</b>	<b>13.4</b>	<b>14.4</b>	<b>16.8</b>	<b>19.6</b>	<b>23.0</b>	<b>Performance ratios</b>					
Capex	-5.3	-6.7	-10.1	-9.6	-9.6	<b>Y/e June 30</b>	<b>2014A</b>	<b>2015A</b>	<b>2016E</b>	<b>2017E</b>	<b>2018E</b>
Investments/Acquisitions	-6.0	1.5	0.0	0.0	0.0	Gross Profit Margin (%)	93.7%	94.8%	95.0%	95.0%	95.0%
Other investing cash flow	0.1	0.2	0.0	0.0	0.0	EBITDA margin (%)	24.6%	24.3%	24.0%	24.4%	24.9%
<b>Investing cashflow</b>	<b>-11.3</b>	<b>-4.9</b>	<b>-10.1</b>	<b>-9.6</b>	<b>-9.6</b>	EBIT margin (%)	18.2%	18.6%	18.2%	18.7%	19.3%
Change in borrowings	5.6	-9.2	-0.2	-0.2	0.0	NPAT - Normalised margin (%)	12.5%	13.0%	12.8%	13.1%	13.5%
Equity issued	0.6	19.6	0.0	0.0	0.0	Return on assets (%)	17.0%	18.4%	18.2%	20.6%	22.1%
Dividends paid	-14.3	-8.1	-8.6	-9.6	-11.3	Return on equity (%)	33.8%	32.5%	26.1%	29.3%	31.1%
Other financing cash flow	0.0	0.0	0.0	0.0	0.0	ROIC (%)	33.9%	38.3%	38.7%	41.0%	43.7%
<b>Financing cashflow</b>	<b>-8.1</b>	<b>2.3</b>	<b>-8.8</b>	<b>-9.7</b>	<b>-11.3</b>	Payout Ratio -ordinary dividend (%)	NA	78%	80%	80%	80%
<b>Net change in cash</b>	<b>-6.0</b>	<b>11.8</b>	<b>-2.1</b>	<b>0.3</b>	<b>2.1</b>	Effective tax rate (%)	31.1%	30.5%	31.0%	31.0%	31.0%
Cash at start of period	9.8	3.8	15.6	13.5	13.7	<b>Growth (%)</b>					
Exchange rate impact	0.0	0.0	0.0	0.0	0.0	<b>Y/e June 30</b>	<b>2014A</b>	<b>2015A</b>	<b>2016E</b>	<b>2017E</b>	<b>2018E</b>
<b>Cash at end of period</b>	<b>3.8</b>	<b>15.6</b>	<b>13.5</b>	<b>13.7</b>	<b>15.8</b>	Gross Profit Growth	2.9%	28.3%	15.7%	17.4%	12.6%
<b>Free cash flow</b> (op. CF less capex and acquisition)	<b>2.0</b>	<b>9.3</b>	<b>6.7</b>	<b>10.0</b>	<b>13.4</b>	EBITDA Growth	17.4%	25.3%	14.1%	19.3%	14.9%
<b>Balance sheet</b>						EBIT Growth	22.7%	29.6%	12.8%	20.9%	15.9%
<b>Y/e June 30 (A\$m)</b>	<b>2014A</b>	<b>2015A</b>	<b>2016E</b>	<b>2017E</b>	<b>2018E</b>	PBT Growth	24.9%	30.6%	14.6%	20.5%	15.8%
Cash	3.8	15.6	13.5	13.7	15.8	NPAT - normalised Growth	28.3%	31.7%	13.8%	20.5%	15.8%
Current receivables	3.6	1.1	1.2	1.4	1.6	<b>Leverage ratios</b>					
Inventories	2.0	2.2	2.2	2.5	2.7	<b>Y/e June 30</b>	<b>2014A</b>	<b>2015A</b>	<b>2016E</b>	<b>2017E</b>	<b>2018E</b>
Other current assets	0.1	0.1	0.1	0.1	0.1	Net debt/(cash) (A\$m)	5.9	-15.2	-13.3	-13.7	-15.8
<b>Current assets</b>	<b>9.5</b>	<b>19.0</b>	<b>17.0</b>	<b>17.7</b>	<b>20.2</b>	Net debt/equity (%)	31.1%	-37.0%	-30.5%	-28.9%	-30.6%
PPE	22.0	24.6	29.8	33.7	36.9	Net debt/EBITDA (x)	0.4	-0.8	-0.6	-0.6	-0.6
Non-current receivables	0.0	0.0	0.0	0.0	0.0	Net Interest cover (x)	211.9	net cash	net cash	net cash	net cash
Intangible assets - Goodwill	10.6	10.6	10.6	10.6	10.6	Gearing (net debt/net debt + equity) (%)	23.7%	-58.7%	-43.9%	-40.6%	-44.1%
Intangible assets - Other	1.0	0.9	0.8	0.8	0.7	<b>Key Operating Metrics</b>					
Deferred Tax Assets	3.2	4.0	4.0	4.0	4.0	<b>Y/e June 30</b>	<b>2014A</b>	<b>2015A</b>	<b>2016E</b>	<b>2017E</b>	<b>2018E</b>
<b>Non-current assets</b>	<b>36.8</b>	<b>40.2</b>	<b>45.3</b>	<b>49.1</b>	<b>52.3</b>	Number of Dental Centres (EOY)	41	49	58	68	78
<b>Total assets</b>	<b>46.3</b>	<b>59.2</b>	<b>62.2</b>	<b>66.8</b>	<b>72.5</b>	Number of Dental Chairs commissioned (EOY)	203	226	249	277	305
Payables	9.5	9.7	10.2	10.8	12.1	Average Active chairs/centre	5.0	4.6	4.3	4.1	3.9
Current debt	0.2	0.2	0.2	0.0	0.0	Extra chair capacity (uncommissioned chairs) (EOY)	56	65	75	87	99
Current Provisions	2.8	2.9	3.0	3.2	3.3	Extra capacity at EOY (% of total chairs capacity)	22%	22%	23%	24%	25%
Current tax liability	1.6	0.9	0.9	0.9	0.9	Total Gross Patient Fees Revenue (A\$m)	95.9	121.4	140.0	164.0	184.6
Non-current debt	9.4	0.2	0.0	0.0	0.0	Service Revenue to PSQ (share of gross patient fees) (A\$m)	58.7	74.5	85.9	100.9	113.5
Non-current Provisions	3.6	4.0	4.1	4.2	4.3	PSQ Share of Patient Fees (%)	61.2%	61.3%	61.4%	61.5%	61.5%
Deferred tax liabilities	0.4	0.3	0.3	0.3	0.3	<b>Interims</b>					
Other liabilities	0.0	0.0	0.0	0.0	0.0	<b>Y/e June 30 (A\$m)</b>	<b>2H14A</b>	<b>1H15A</b>	<b>2H15A</b>	<b>1H16E</b>	<b>2H16E</b>
<b>Total liabilities</b>	<b>27.4</b>	<b>18.2</b>	<b>18.6</b>	<b>19.4</b>	<b>20.9</b>	Total Revenue	30.2	37.6	37.3	41.5	44.9
Shareholders' equity	13.2	35.1	35.1	35.1	35.1	Other Revenue	1.0	0.7	0.9	0.8	0.8
Reserves	0.0	0.1	0.2	0.3	0.4	EBITDA	7.1	9.2	9.0	9.9	10.9
Retained earnings/ (losses)	5.7	5.9	8.3	12.1	16.2	...EBITDA margin (%)	23%	25%	24%	24%	24%
<b>Total shareholders equity</b>	<b>18.8</b>	<b>41.0</b>	<b>43.6</b>	<b>47.4</b>	<b>51.7</b>	EBIT	4.9	7.2	6.8	7.4	8.4
						Pre-tax profit	4.7	7.2	6.8	7.5	8.6
						NPAT (normalised)	3.2	5.0	4.7	5.2	5.9
						NPAT (reported)	3.5	3.6	4.7	5.2	5.9

SOURCE: BELL POTTER SECURITIES ESTIMATES

**Recommendation structure**

**Buy:** Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

**Hold:** Expect total return between -5% and 15% on a 12 month view

**Sell:** Expect <-5% total return on a 12 month view

*Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.*

*Such investments may carry an exceptionally high level of capital risk and volatility of returns.*

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