

ASX ANNOUNCEMENT

30 September 2024

Pacific Smiles' Board Intends to Recommend Shareholders REJECT

Genesis Capital Off-market Takeover Bid

To REJECT, simply do nothing in response to the Offer

Highlights

- Pacific Smiles has received intention statements from MA Financial Group Limited (with a relevant interest in 13.43% of Pacific Smiles Shares) and Dr Alison Hughes, co-founder of Pacific Smiles (with a relevant interest in 9.94% of Pacific Smiles Shares), that they do not intend to accept the Offer on the terms of their statements (see below).
- The Offer's 90% Minimum Acceptance Condition can therefore not be met in the current circumstances.
- Pacific Smiles' recently released FY24 results demonstrate the operating momentum in the business including strong utilisation improvement in newer cohorts, its continued cash flow generation and healthy net cash position.
- Genesis Capital's Offer is materially below NDC BidCo's prior cash offer of \$2.05 per Share.
- Genesis Capital's Offer has not improved from its revised proposal received on 28 July 2024, despite strong FY24 results and cash flow generated during this time.
- Following payment of the full-year dividend in October this year, the All Cash Consideration paid by Genesis Capital would be \$1.8675 per Share at completion.

On Tuesday 17 September 2024, Beam Dental Bid Co Pty Ltd (**Bidco**), an associate of Genesis Capital Manager I Pty Ltd (**Genesis Capital**) announced an off-market takeover bid to acquire 100% of the ordinary shares (**Shares**) in Pacific Smiles Group Limited (ASX:PSQ) (**Pacific Smiles**) for \$1.90 per Share (in cash, scrip or a mix of cash and scrip) (**Offer**). Genesis Capital has a 19.9% relevant interest in Pacific Smiles.

You are expected to receive the Bidder's Statement from Genesis Capital shortly. The Board of Pacific Smiles will release its Target's Statement in mid October 2024. Ahead of that date, the Board advises that it intends to unanimously recommend that shareholders **REJECT THE GENESIS CAPITAL OFFER** and **TAKE NO ACTION**.

In forming this intention, the Board has carefully considered a number of relevant commercial and strategic factors.

In addition, the Board notes that, under the Offer, Pacific Smiles shareholders who elect for All Cash Consideration would receive \$1.90 less the full cash amount of any dividend declared or paid by Pacific Smiles after 17 September 2024. As Pacific Smiles has now passed the ex-dividend date and will pay its 3.25 cent declared dividend on 10 October 2024 regardless of the Genesis Capital Offer, shareholders who elect the All Cash Consideration option would only receive \$1.8675 per Pacific Smiles Share from Genesis Capital if and when the Offer completes.

The Board's key reasons for intending to recommend you **REJECT THE GENESIS CAPITAL OFFER** are set out below.

1. The Offer is not able to complete in the current circumstances

The Offer is subject to a Minimum Acceptance Condition of at least 90% (by number) of Pacific Smiles Shares.

The Pacific Smiles Board has received written intention statements from:

- MA Financial Group Limited, holder of a 13.43% relevant interest in Pacific Smiles Shares (being 21,427,932 shares), that it intends to reject the Offer, seeing long term value in the business above the Offer price, "validated by the FY24 results and corporate interest from multiple private equity firms"; and
- Dr Alison Hughes, co-founder of Pacific Smiles and holder of a 9.94% relevant interest in Pacific Smiles Shares (being 15,860,190 shares), that she intends to reject the Offer as contained in the Bidder's Statement (reserving the right to reconsider if there is any variation to any terms, a waiver of any Conditions or any announced alternative control proposal).

Bidco's current financing arrangements, as disclosed in the Bidder's Statement, require the Minimum Acceptance Condition to be met, and therefore the Offer is not capable of being completed in the current circumstances.

2. The Offer is opportunistic

The Offer is opportunistically timed considering:

- the strong performance of Pacific Smiles, notwithstanding the corporate activity it has been subject to. For the year to 30 June 2024, Pacific Smiles' delivered an increase in group revenue year-on-year of 8.7%, underlying EBITDA increase of 16.9% and a dividend payout of 100% of underlying NPAT (in line with its dividend policy);
- the business and its shareholders have invested significantly in its installed footprint which continues to benefit from increasing utilisation as its centres mature;
- the recent resignation of the CEO and CFO, and in progress changes to the leadership team who will focus on a refreshed strategy to drive operational performance through both technology and commercial drivers; and
- Genesis Capital voted against a Board recommended cash offer of **\$2.05** via scheme of arrangement, which would otherwise have been passed by the requisite majorities.

3. Shareholders should pay careful attention to disclosures within the Bidder's Statement about the prospects for, and governance of, Holdco

These disclosures include that Holdco would be highly levered at up to 5.6x net debt / EBITDA, that Holdco's interest costs are expected to be equivalent to the majority of Pacific Smiles' FY24 free cash flow, and that Holdco shareholders do not have the ability to prevent Genesis Capital entering into related party transactions which are deemed "arm's length" by the Holdco Board and could dilute their interest in HoldCo (noting there is an absence of basic shareholder reserved matters that are often included in these documents).

Genesis Capital has separately acknowledged in its Bidder's Statement that there is no assurance the present or future value of the All Scrip Consideration or Mixed Consideration will be equal or higher than the All Cash Consideration, and may be materially lower than such value.

Next steps

Pacific Smiles will provide its shareholders with a formal Target's Statement in response to the Offer in mid October 2024, as required pursuant to the Corporations Act. This will include full details of the Board's recommendation.

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Shareholders are advised to wait until they receive the Target's Statement and can consider it carefully before deciding whether to accept or reject the Offer. The Board intends to recommend shareholders **TAKE NO ACTION** in relation to the Offer.

As previously announced, the Board is focused on delivering value for shareholders, and will only recommend a transaction that is in the best interest of shareholders as a whole.

Pacific Smiles continues to engage Greenhill & Co. as financial adviser and Gilbert + Tobin as its legal adviser.

Definitions capitalised in this announcement but not defined have the meaning given to them in the Genesis Capital Bidder's Statement released to the ASX on 17 September 2024.

This announcement was authorised by the Board of Pacific Smiles.

ENDS

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Forward-looking statements

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