

Pacific Smiles Dental: Building a powerful network



When we assess returns and industry structure, we try to dimension how we think a company can grow and why it will be able to effectively compete with other players with similar products or services. In evaluating a business, we seek to understand if the business might be subject to a network effect. There are several definitions of a network effect but the way we think about it is, as people increasingly use your products and/or services does this create a flywheel effect that brings more consumers into your business which further expands your network. The biggest example used here is the internet. If there was no-one using the internet, then the ability to transact on it would also be small. As internet users grew, it attracted content, commerce, information, and interaction. This in turn attracted more people and the offering expanded and hence the cycle continues. Other examples post the growth in internet users would be common names like Facebook in social media and Amazon in online commerce. So, what does this effect have to do with small companies and how can companies that are not traditional tech names also deliver a network effect?

When we look at Pacific Smiles Group (PSQ) we see a business with 109 clinics that offers a corporate dental model across Australia. Dentists choose to work with PSQ and they effectively operate their dental clinics from within the corporately owned site. PSQ look after the entire running of the centre for the dentist, allowing them to concentrate on offering the dental services they want, working the hours they want and avoiding the administration elements of the job. So why is PSQ different to dentist owned practices? In a non-corporate model, the dentist owns the practice (often with a few partners) and they run the entire centre. They are responsible for the corporate side of the business –

monthly financials, tax advice, lease discussions, payments, cleaning, growing appointment book, marketing, capex for expansion, education, and training, hiring and firing staff and then of course seeing old and new clients and being a dentist. Dentists, as owners need to add locums to cover their work when they wish to go on holidays and ensure that the lights remain on, and customers get treated while they are away. Often there are many hours spent doing corporate admin outside the typical dentist working hours.

So why would a dentist consider a career with PSQ and why will 1 in 10 new dental graduates establish their clinic from within a PSQ centre in 2022? In part, the flexibility of the PSQ model appeals to dentists that wish to have site and hours flexibility without the added burden of all the clinic associated administration. The PSQ model means that you can “own a practice inside a clinic” without having to commit the associated capital that may be needed to buy into a private clinic. Being part of PSQ means not being locked into dental partners and a specific site unless you want to. The nature of the PSQ offer is that all clinics operate the same way, they have the same look and feel as well as dental products, consumables, dental chairs, and administration and booking systems. They make staff and dentist movement between sites easy with no site nuances likely to cause assimilation issues. On a bigger level, PSQ also foots the capital expenditure to lease the site and build a state-of-the-art centre with new chairs and equipment. Often this level of capital expenditure is beyond the scope of a dentist at an early point of their career, and it raises concerns for them as they feel it may lock them in to a particular site and/or specific partners. Education and training are a key part of the PSQ dentist offer and a reason for being part of the network. PSQ have a coordinated a consistent approach to training aimed at lifting the understanding and skill base around evolving dental techniques, the use and application of new products as well as regular peer assessment of what is working across clinics and dentists to drive towards best practice and high patient satisfaction. The total services provided by PSQ to their dentist partners drives a very high +90% retention rate.

From a patient perspective, PSQ offers high-quality centres with modern equipment that can perform a complete array of work from drill and fill to whitening, braces and root canal. Patients have the scope to use their private health insurance and, in some cases, incur no out of pocket fees. Patients have the flexibility to see the same dentist if they wish or a different dentist each time. Increasingly, the locations that PSQ are placing their new clinics mean that they are becoming more convenient for patients to attend, in shopping centres close to supermarkets with easy car parking. PSQ is looking to rollout an additional 20-25 centres per annum over the next 4 years with a long-term goal of having 250 centres. The current 109 centres PSQ operate constitutes around 2% of the total dental market in Australia, 250 clinics would imply market share of around 5%. High service levels from well-trained dentists have seen strong bookings as each new clinic

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opens and have driven a +80 patient net promoter score. This high satisfaction score in turn drives referrals which in turn become new recurring patient revenue.



So where is the network effect in all this? In fact, there are two networks working, each reinforcing the other. Well trained, resourced, and paid dentists working flexible hours in a corporate dental model prove to new and existing dentists that practice ownership is not their only option and is likely to attract new talent seeking the same benefits. As PSQ rapidly expands its clinic network this will present opportunities for new dentists to operate and grow their practice inside these facilities. Well treated patients that feel like they have had their dental work done to the highest quality at a reasonable price drives patient satisfaction. Easily located clinics with booking capacity drives the patient net promoter score which in turn drives patient referrals. More patients fill more clinics, and provided that the dentist execution and the corporate culture remain focused on patient outcomes, this should deliver an ever-expanding network on both the patient and dentist side of the chair.



The vital part of the entire program remains the execution by PSQ management in dentist selection and measured clinic rollout. The entire dental integrity is driven around high-quality dentists, sufficient economic reward sharing, ongoing training, and high levels of respect between dentists and PSQ. This is a key piece of the strategy. The roll out of clinics needs also to be monitored around capex costs and early patient utilisation to ensure initial service levels and appropriate longer-term returns. We expect PSQ management to deliver consistent execution on both the dentist attraction and retention as well as high patient levels of satisfaction, such that as centre levels grow, this will create a growing network effect that will in turn drive significant long-term value for all PSQ shareholders.

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