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18 AUGUST 2017



# FY 2017 RESULTS PRESENTATION





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A number of figures, amounts, percentages, estimates, calculations of value and fractions in this presentation are subject to the effect of rounding. Accordingly, the actual calculation of these figures may differ from the figures set out in this presentation.

## **AGENDA**



- 1. PERFORMANCE HIGHLIGHTS
- 2. BUSINESS OVERVIEW AND UPDATE
- 3. RESULTS DETAIL
- 4. GROWTH AND OUTLOOK
- 5. APPENDIX



## **OUR TRUE PURPOSE FACTS**



## How we've helped shape Australia's oral health in the last 12 months



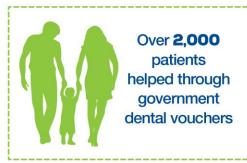




We've seen over 100,000 new patient smiles



We are the major sponsor of the National Dental Foundation which facilitates free dental services to those members of society least able to access dental care.





75% of patients surveyed scored us a 9 OR 10



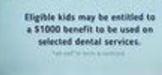
We've helped approx **27,000** kids smile with the Child Dental Benefits Schedule





# PERFORMANCE FREE KIDS DENTAL DENTAL

Pacific Smiles
DENTAL







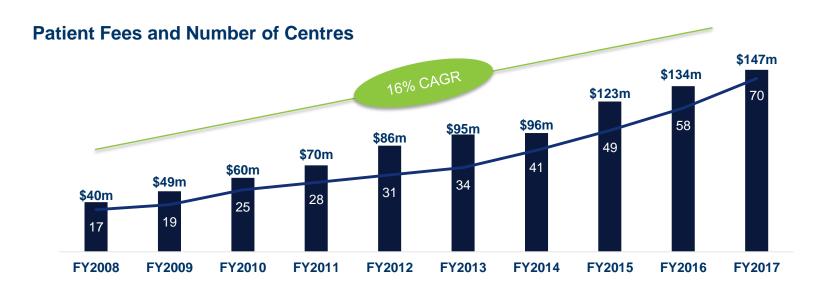
## **FY 2017 RESULTS SUMMARY**



				1					
	PATIENT FEES	SAME CENTRE GROWTH	EBITDA	EBITDA / PATIENT FEES	NPAT	EPS	DPS	DENTAL CENTRES	
			Underlying	Underlying	Underlying	Underlying			
	\$147.0m	+3.8%	\$20.9m	14.2%	\$10.3m	6.8 cents	5.9 cents	70	D.
YOY	+9.8%	-120bps	+6.3%	-50bps	+1.3%	+1.3%	+0.4 cents	+12	
6									

## TRACK RECORD OF SUCCESS







## **FY 2017 OPERATIONAL HIGHLIGHTS**



**Dental Centres** 

**70** 

21% Growth

Inaugural annual conference 'Inspire' for Pacific Smiles Dentists

NET PROMOTER SCORE

>70

Dental Advisory
Committee
comprising internal
& external dentists



**NEW CENTRES** 

12



Commissioned Chairs

276

14% Growth

343
DENTISTS
16% Growth

Dentist and Patient engagement database

890 EMPLOYEES



## FY 2017 OPERATIONAL HIGHLIGHTS (continued)



## We continued to invest in the following key areas to grow our competitive advantage:



## **Technology**

- Next generation 'business' database to enhance dentist and patient engagement
- Business process automation
- Mobile first technology, including introduction of a comprehensive patient communication application



## **Branded Network Growth**

- Cluster-oriented organic rollout of new centres in established areas
- Continued improvements in site selection, shop front appeal and pre-opening marketing
- Structure and systems in place to continue to scale up



## People & Culture

- Investment in frontline training and talent building (e.g. inaugural Inspire Conference)
- Implemented new talent management software platform
- In-house mentor programme for recent graduate dentists



## KEY ELEMENTS OF THE BUSINESS MODEL



#### **Pacific Smiles**

#### **Facilities**

- · Fit-out and operate modern, high quality dental centres
- Ongoing facility maintenance

#### Staffing

 Over 800 staff including nurses, receptionists, centre managers, administration and senior management

#### Procurement

- · Inventory management
- · Negotiations with suppliers, logistics, accounts payable

#### **Private Health Insurer Relationships**

- Co-ordinate and administer Preferred Provider Agreements
- Special marketing collaborations with selected insurers

#### **Marketing and Retention**

- · Local and regional brand marketing
- Patient communication and engagement between appointments

#### **Administration and Compliance**

- · Corporate and centre based administrative services
- · Policies and procedures for compliance

#### **Clinical Oversight**

- Dental Advisory Committee
- · Incident reporting, monitoring, benchmarking, feedback

#### **Training and Development**

- · Graduate Development Programme
- · Inspire Dentist Conference
- Mentoring

#### **IT and Systems**

- Practice management software and reporting
- IT systems and support

Services & Facilities



#### **Dentists**

#### ~ 343 dentists

- · No term contracts or upfront payments
- · Dentist pays Pacific Smiles a service fee
- · Dentist retains clinical decision making
- Range of dentist age profiles, experience and backgrounds
- Patient satisfaction evaluated through post visit surveys (Net Promoter Score)



## Private Health Insurers



#### **Patients**

- ~ 594,000 patient visits per annum
- 76% general dentistry, 24% "high value"
- · Demographic is "middle Australia"
- · 75% of patients privately insured

Quality assurance

## **OUR COMPETITIVE ADVANTAGE**



#### 1. Multi-State Branded Network

- 62 of 70 dental centres are branded Pacific Smiles Dental
- Branding consistency to grow awareness, preference and trust

## 2. Organic Rollout

- 10+ years of executing greenfield rollout model – driven by constantly improving site selection, dentist and patient engagement
- Proven unit economics in a variety of location types

## 3. Scale Operations

- Leverage group buying power
- Group marketing benefits and partnership programs such as Velocity partnership
- Increased brand awareness

### 4. Patient Satisfaction

- Net Promoter Score continues to be above 70
- Strong patient rebooking and retention

## 5. Dentist Clinical Autonomy

- No corporate interference in clinical decision making
- Dental Advisory Committee provides a voice for dentists

## **6. Private Health Insurance Partners**

- Collaborative marketing arrangements
- Preferential patient benefits

## **DENTAL CENTRE NETWORK**



Currently 70 dental centres in total, of which 62 are branded Pacific Smiles Dental and 8 are branded nib Dental Care Centre



Que	ensland
Bribie Island Brisbane CBD Browns Plains Burleigh Heads Capalaba Deception Bay Helensvale	Morayfield Mt Ommaney Mt Gravatt North Lakes Redbank Plains Strathpine
New Sc	outh Wales
Belmont Belrose Bateau Bay Blacktown Brookvale Campbelltown Charlestown nib Chatswood Erina nib Erina Forster Gladesville Greenhills nib Glendale Jesmond Kotara Lake Haven Marrickville	Morisset Narellan nib North Parramatta Parramatta Penrith Queanbeyan Nowra nib Newcastle Rutherford Salamander Bay Singleton nib Sydney Toronto Town Hall Tuggerah Wagga Wagga Warilla nib Wollongong
Australian C	Capital Territory
Belconnen Manuka	Tuggeranong Woden
Vi	ctoria
Bairnsdale Bendigo Cranbourne Park Drysdale Melbourne nib Melbourne Melton Mill Park Mulgrave	Point Cook Ringwood Sale Torquay Traralgon Warragul Waurn Ponds Werribee

## **FY2017 NEW CENTRES: CLUSTER INFILL**



#### **Geographic cluster focus**

VIC	NSW	QLD
Mill Park	Belrose	Mount Gravatt
Ringwood	Brookvale	Redbank Plains
Werribee	Marrickville	Strathpine
Mulgrave	Campbelltown	
	Erina (nib)	

#### Rollout of successful formula

- 3-4 chair centres.
- High foot traffic shopping centre locations
- Open shopfronts
- 7 days per week and extended operating hours
- Private health insurer and government programs
- Velocity program
- Strong local marketing
- Aligned, engaged dentist and staff

## **Shopping centre format**



#### **Performance**

- Strong patient booking at opening
- Patient Fees and EBITDA ramp up tracking to Pacific Smiles' historical experience
- Cluster efficiencies from regional marketing and staffing
- Scale benefits as centres mature



## **SUMMARY INCOME STATEMENT**





\$ MILLIONS	UNDERLYING FY 2017	UNDERLYING FY 2016	CHANGE
Revenue	91.5	83.3	9.8%
Gross profit	85.9	78.5	9.4%
EBITDA	20.9	19.7	6.3%
Depreciation and amortisation	(6.0)	(5.0)	20.1%
EBIT	14.9	14.6	1.6%
Net interest expense	(0.2)	(0.0)	>100%
Profit before tax	14.7	14.6	0.5%
Tax	(4.4)	(4.5)	(1.1%)
Net profit after tax	10.3	10.2	1.3%
Key operating metrics			
Number of Dental Centres	70	58	21%
Number of Commissioned Dental Chairs	276	243	14%
Patient Fees (\$m)	147.0	133.8	10%
Same Centre Patient Fees growth	3.8%	5.0%	
Key financial metrics			
Earnings per share (cents)	6.8	6.7	
EBITDAmargin	22.9%	23.6%	
EBITDAto Patient Fees margin	14.2%	14.7%	
EBIT margin	16.3%	17.6%	

- Revenue up 9.8% to \$91.5 million reflecting growth from new centres opened in FY 2017 and FY 2016 and patient fee growth in same centres
- Same centre patient fees growth +3.8% (FY 2016: +5%)
  - Impacted by softer trading in April and May
  - The ex-DEP centres in Parramatta and Town Hall had a substantial impact on same centre patient fees
  - Excluding these two centres, same centre patient fees grew 5.7% in FY 2017
- EBITDA to Patient Fees margin down 0.5%, but expanded on a same centre basis in FY 2017
- D&A stepped up by \$1.0 million, reflecting the acceleration of new centre developments from FY 2015 onwards

## **FY2017 EBITDA BRIDGE**



#### **Composition of EBITDA Change**



The key drivers of the movement are summarised in the adjacent chart:

- Start up losses from new centres opened in FY 2017 – 12 new centres were opened (FY 2016: 9), with 8 opened in the second half of the financial year
- Parramatta and Town Hall (ex-DEP centres)
   performed below expectation, although Town
   Hall improving
- Pacific Smiles remains committed to building a platform for long term sustainable growth

#### Notes

<sup>1.</sup> EBITDA contribution impacted by the timing of new centre openings, with four centres opened in May/June 2016 and five centres opened in April-June 2017

<sup>2.</sup> In the chart above, PM refers to Parramatta and TH refers to Town Hall

## **FY2017 CASHFLOW & BALANCE SHEET**



	STATUTORY	STATUTORY
\$ MILLIONS	FY 2017	FY 2016
EBITDA	20.6	19.3
Other non-cash items	(0.1)	0.1
Changes in working capital (exc. Income tax)	1.5	(8.0)
Net interest paid	(0.2)	(0.0)
Income tax paid	(4.7)	(5.5)
Net cash flow from operating activities	17.1	13.1
Capital expenditure	(13.6)	(14.2)
Other investing activities	0.0	0.0
Net cash flow from investing activities	(13.5)	(14.2)
Borrowings (net)	4.9	(0.2)
Dividends	(8.7)	(8.1)
Net cash flow from financing activities	(3.8)	(8.3)
Net cash flow	(0.2)	(9.5)

	STATUTORY	STATUTORY
\$ MILLIONS	30 JUN 2017	30 JUN 2016
Cash and cash equivalents	5.9	6.1
Other current assets	4.6	4.0
Property, plant and equipment	41.9	34.2
Other assets	15.8	15.7
Total Assets	68.2	60.0
Payables	9.8	8.6
Provisions	9.1	8.1
Borrowings	5.0	0.2
Other liabilities	-	0.3
Total Liabilities	23.9	17.1
Net Assets	44.3	43.0

- EBITDA cash conversion of 107.1%
- Total capital expenditure of \$13.6 million, including:
  - 12 new centres opened (\$10.3m)
  - Relocation of the Narellan centre (\$0.7m)
  - Balance includes commissioning of 8 additional surgeries in existing centres
- Borrowings increased due to the drawdown of debt to fund the new centre rollouts
- FY 2017 final dividend of 3.7 cps declared, payable in October 2017
- Net cash of \$0.9 million at 30 June 2017, down from net cash of \$6.0 million at 30 June 2016
- Increases in property, plant and equipment reflect the investment in new centres
- FY 2017 ROIC (underlying EBIT) decrease from 47% to 37% is attributable to the acceleration in the rate of new centre openings over the past three years as younger centres are dilutive to ROIC

#### Note

- 1. Amounts in the table have been rounded to the nearest \$100,000. Any discrepancies between totals and sums of components are due to rounding
- 2. Cash conversion calculated as operating cash flow excluding tax and net finance costs as a ratio of EBITDA







## **DRIVERS OF EARNINGS GROWTH**



## 1. GROWTH OF EXISTING CENTRES

>40% of centres less than 3 years old

## 2. ROLLOUT OF NEW CENTRES

- Targeting at least 10 new centres per annum
- Long term network potential of at least 250 dental centres

## 3. MARGIN EXPANSION

Increased scale, new centre ramp-up and operational improvements





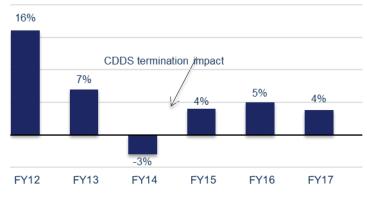
## **GROWTH FROM EXISTING CENTRES**



#### History of strong "same centre" patient fees growth as centres mature

- As a result of rapid growth, Pacific Smiles' centre network includes a significant proportion of "immature" centres
- Over 40% of centres are less than 3 years old
- Average same centre patient fees growth of 5.5% pa over the six years to 30 June 2017
- Network at 30 June 2017 included 276 commissioned dental chairs, and a capacity for a further 96 surgeries which can be commissioned to meet future demand
- Strategies to increase same centre patient fees growth include:
  - Innovative marketing initiatives to build brand awareness to attract new patients
  - Improve patient engagement and loyalty, and promote regular attendances
  - Increase range of services





■ Same Centre Patient Fee Growth %

## **GROWTH FROM EXISTING CENTRES (CONT)**



- PSQ's less mature centres continue to show strong positive growth as evidenced by the 14.6% growth in centres opened between from FY 2011 to FY 2015
- The ex-DEP centres in Parramatta and Town Hall continue to act as a material drag on same centre patient fee growth in FY 2017, however Town Hall is showing signs of improvement over recent months
- Excluding these centres, same centre growth is 5.7% in FY 2017
- Group profitability has been impacted by the acceleration in centre openings over the past three years due to the start-up losses incurred for new centre openings
- As an illustration of the impact of accelerated new centre openings, EBITDA losses from new centres opened in a 12 month period have increased from breakeven in FY 2014 to \$1.1m in FY 2017

Same Centre Patient Fee Growth	FY 2016	FY 2017	FY 2017 Contribution
Centres opened 2010 and earlier	3.8%	2.3%	68%
Centres Opened 2011 to 2015 <sup>1</sup>	19.2%	14.6%	32%
Group (Ex-DEP)	7.2%	5.7%	100%
Group	5.0%	3.8%	

New centre EBITDA in period	FY 2014	FY 2015	FY 2016	FY 2017
# of centres	42	8	9	12
EBITDA	\$0.0m	(\$0.5m)	(\$0.9m)	(\$1.1m)

#### Notes

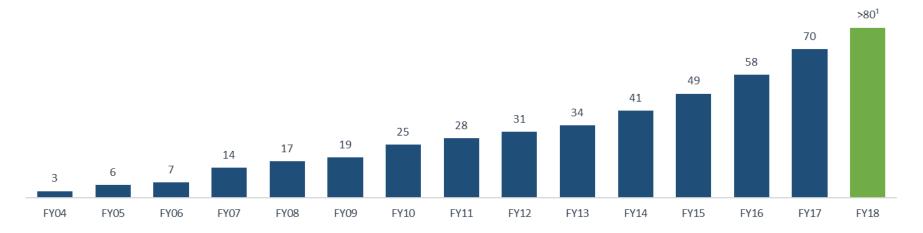
<sup>1.</sup> Excludes ex-DEP centres Parramatta and Town Hall. Centres opened in FY2015 do not contribute to same centre growth in FY 2016

<sup>2.</sup> Excludes the three ex-DEP centres

## **GROWTH FROM NEW CENTRE ROLLOUT**



#### Significant organic rollout opportunity



- Pacific Smiles has grown strongly from 3 centres in 2003 to 70 centres currently
- New centre rollout rate has accelerated, with 9 new centres in FY 2016 and 12 in FY 2017
- Targeting at least 10 new centres in FY 2018
- Executing national network plan
- Long term network potential of at least 250 dental centres

#### Note:

1. FY18 based on target of at least 10 new centres

## **NEW CENTRE ECONOMICS: RECAP**



New Pacific Smiles Dental Centres (opened Jul-11 to Jun-16)

Group median
(all centres open >2 years)

	Year 1	Year 2	
Chairs commissioned per centre	2	2	4
Patient Fees per centre	\$0.8 m	\$1.2 m	\$2.2 m
EBITDA per centre	(\$0.1 m)	\$0.2 m	\$0.5 m
EBITDA / Patient Fees (centre level) <sup>1</sup>	(7%)	13%	more than 20%

- The table above shows average data for the 29 new Pacific Smiles Dental Centres opened in the period July 2011 to June 2016
- On average, the group showed start-up losses at the centre EBITDA¹ level in year one and became solidly profitable in year two, with a 13% EBITDA to Patient Fees margin at centre level

#### Note:

<sup>1.</sup> Centre level EBITDA excludes any allocation of corporate overheads

## **COHORT ANALYSIS**



#### Margin expansion from same centre patient fees growth, new centre ramp up and leveraging fixed overheads

- Group EBITDA to patient fees margin has expanded from 10% in FY 2009 to approximately 14% in FY 2017
- Established centres take many years to achieve maturity and continue to show margin expansion over this time
- The past five cohorts have followed a consistent path of EBITDA ramp-up over the first 36 months of operation
- The centres opened in FY 2016 and FY 2017 have achieved profitability within the first 12 months of operation

# 

Note: 1. Represents the average EBITDA for the centres opened during the relevant financial year from month 0 (pre-opening) to month 36. Centre EBITDA has been scaled to align opening months by cohort. For example month 1 for the FY 2012 cohort reflects the average EBITDA for the first month for all centres opened in FY 2012.

## **DENTAL INDUSTRY UPDATE**



## Industry Size

- **Expenditure on dental services** amounted to \$8.9bn in 2013-14 and has grown at a compound annual growth rate of approximately 6% over the five years to 30 June 2014<sup>1</sup>
- · Opportunity for step change in attendance patterns via driving education and affordability
- **Historically resilient sector** including throughout periods of change in the funding environment, such as in 2012 when the Chronic Diseases Dental Scheme was removed

## **Funding**

- Federal Government funding of the dental sector is low compared to other areas of primary care only 7% of dental expenditure comes from this source compared to 82% for general medical<sup>1</sup>
- **Private health insurance** benefits represent 17% of total dental expenditure. This is net of private health rebates of ~\$600 million, or 6% of total dental expenditure

## Dentist Workforce

- There are approximately 17,000 registered dentists in Australia today, up from 14,000 five years ago<sup>2</sup>
- **Demographic shifts in the dental workforce** as the proportion of female dentists continues to increase and now represents approximately 50% of the total. This trend is expected to continue with females accounting for approximately 60% of dental graduates today
- This has coincided with a **higher proportion of dentists working part-time** and increased demand for more flexible working conditions, both supportive of the Pacific Smiles service model

#### Notes:

- 1. AIHW 2013-14 Health Expenditure
- 2. Dental Board of Australia Statistics as of 31 March 2017

## STRATEGIC UPDATES FOR FY 2018



1

# Board & Executive appointments

- Appointed a new non-executive Director Zita Peach, accomplished former healthcare executive and current non-executive Director, bringing significant operating experience to the Board
- Dr Alex Abrahams, Founder, moves to non-executive Director position and remains actively involved in the business with a focus on clinical leadership, industry advocacy, and Company culture
- Appointment of Allanna Ryan as Chief Financial Officer, following successfully transitioning from previous role as Financial Controller

2

## <sup>1</sup> Network Optimisation

- The ex-DEP centre located in Paramatta continues to materially underperform initial expectations despite being relocated in late 2015. Management is currently evaluating all options to improve performance
- Evaluating opportunities to expand the nib dental centre footprint

3

## Dentist & Patient Engagement

- Practitioner and patient database and business intelligence projects underway with expected benefits for dentist engagement and retention, patient care across multiple locations, and business process improvement
- Dental plan to improve affordability for uninsured patients being trialled
- Mobile-first technology including introduction of a patient communication application. Targeting improved patient rebooking and retention

4

## Broadening of service offering

- Initiatives underway to expand service offerings within existing centres via dentist training and mentoring systems
- Treatment expansion through collaboration with service providers in areas such as prosthetics, orthodontics and implants.
- Updating of dentist resourcing function and systems to reach more prospective dentists and deepen the talent pipeline

## **FY2018 OUTLOOK**



- **EBITDA** growth for FY 2018 of approximately **10%**
- Patient Fee growth of 10-15%
- Same centre patient fees of >5% (tracking 5.1% YTD up until 15 August 2017)
- Corporate overhead expenses to grow in line with patient fees, with increased investment in training, IT and other enablers of network rollout
- Opening at least 10 new dental centres in FY 2018
- Solid pipeline of new centre opportunities, with 3 new sites already committed for FY 2018
- Dividend policy unchanged, with a pay-out ratio in the range of 80-90% of NPAT for FY 2018

## **SECTION 5**







# STATUTORY – UNDERLYING RECONCILIATION



	STATUTORY	ADJ'S	UNDERLYING	STATUTORY	ADJ'S	UNDERLYING
\$ MILLIONS	FY 2017	FY 2017	FY 2017	FY 2016	FY 2016	FY 2016
Revenue	91.5	-	91.5	83.3	-	83.3
Direct expenses	(5.6)	-	(5.6)	(4.8)	-	(4.8)
Gross profit	85.9	-	85.9	78.5	-	78.5
Other income	1.2	-	1.2	1.6	-	1.6
Expenses						
Employee expenses	(38.4)	0.4	(38.0)	(35.2)	0.0	(35.1)
Consumable supplies expenses	(7.4)	-	(7.4)	(7.0)	-	(7.0)
Occupancy expenses	(10.2)	-	(10.2)	(9.3)	0.2	(9.1)
Marketing expenses	(1.8)	-	(1.8)	(1.7)	0.0	(1.6)
Administration and other expenses	(8.8)	-	(8.8)	(7.8)	0.1	(7.7)
EBITDA	20.6	0.4	20.9	19.3	0.4	19.7
Depreciation and amortisation	(6.0)	-	(6.0)	(5.0)	-	(5.0)
EBIT	14.5	0.4	14.9	14.3	0.4	14.6
Net finance costs	(0.2)	-	(0.2)	(0.0)	-	(0.0)
Profit before tax	14.3	0.4	14.7	14.3	0.4	14.6
Income tax expense	(4.3)	(0.1)	(4.4)	(4.4)	(0.1)	(4.5)
Net profit after tax	10.0	0.3	10.3	9.9	0.3	10.2

- Adjustments to the FY 2017 Income Statement remove the impacts of once-off severance costs.
- Adjustments to the FY 2016 Income
   Statement remove the impacts of once-off
   relocation costs associated with two large
   dental centres at Parramatta and Haymarket
   (moved to Town Hall).

#### Note

Amounts in the table have been rounded to the nearest \$100,000. Any discrepancies between totals and sums of components are due to rounding

## **BALANCE SHEET**

**AS AT 30 JUNE 2017** 



\$ MILLIONS	STATUTORY 30 JUN 2017	STATUTORY 30 JUN 2016
• • •	30 JUN 2017	30 JUN 2010
Current Assets		
Cash and cash equivalents	5.9	6.1
Receivables	1.0	1.3
Inventories	2.9	2.5
Other	0.8	0.2
Total Current Assets	10.5	10.1
Non-Current Assets		
Property, plant and equipment	41.9	34.2
Intangible assets	11.4	11.5
Deferred tax assets	4.4	4.2
Total Non-Current Assets	57.7	49.9
Total Assets	68.2	60.0
Current Liabilities		
Payables	9.8	8.6
Borrowings	-	0.2
Provisions	3.0	3.2
Total Current Liabilities	12.9	11.9
Non-Current Liabilities		
Borrowings	5.0	-
Deferred tax liabilities	-	0.3
Provisions	6.1	4.9
Total Non-Current Liabilities	11.1	5.2
Total Liabilities	23.9	17.1
Net Assets	44.3	43.0
EQUITY		
Contributed equity	35.1	35.1
Reserves	0.2	0.2
Retained profits	9.1	7.7
Total Equity	44.3	43.0

#### Note

1. Amounts in the table have been rounded to the nearest \$100,000. Any discrepancies between totals and sums of components are due to rounding

## H1 v H2 COMPARISON



UNDERLYING	UNDERLYING	H2 vs	H1 vs
H2 2017	H1 2017	PCP	РСР
73.4	73.6	9.7%	9.9%
3.2%	4.4%		
45.9	45.6	10.1%	9.4%
10.2	10.7	(0.2%)	13.3%
13.9%	14.6%	(1.4%)	0.5%
	73.4 3.2% 45.9 10.2	H2 2017     H1 2017       73.4     73.6       3.2%     4.4%       45.9     45.6       10.2     10.7	H2 2017     H1 2017     PCP       73.4     73.6     9.7%       3.2%     4.4%       45.9     45.6     10.1%       10.2     10.7     (0.2%)

#### H2 2017 v H1 2017

- Same centre patient fees growth declined from 4.4% in H1 2017 to 3.2% in H2 2017. Excluding the ex-DEP centres (Parramatta and Town Hall), patient fees growth would have been 5.3% in H2 2017 compared to 6.1% in H1 2017
- Revenue increased by more than patient fees due to an improvement in debtors in H2 2017
- EBITDA (underlying) declined 4.7% due to the start up losses from the accelerated new centre roll outs and lower same centre growth
- EBITDA to patient fees margin contracted, due to the opening of 8 new sites in H2 2017 compared to 4 in H1 2017

#### H2 2017 v H2 2016

- EBITDA (underlying) declined 0.6% due to the start up losses from the accelerated new centre roll outs and lower same centre growth
- Same centre patient free growth declined from 5.1% in H2 2016 to 3.2% in H2 2017

#### Note:

1. Amounts in the table have been rounded to the nearest \$100,000. Any discrepancies between totals and sums of components or in calculations are due to rounding