



**Smiles**<sup>Inclusive</sup>  
*Together We Smile*

**A Better  
Way.**

## **PROSPECTUS**

**Smiles Inclusive Limited**  
ACN 621 105 824



Initial public offer of 35 million ordinary shares at an issue price per share of \$1.00 to raise \$35 million. This Prospectus is an important document and should be read in its entirety. You should seek professional advice if you have any questions about the Shares being offered under this Prospectus, or any matter relating to an investment in the Company. An investment in the Shares offered by this Prospectus is considered to be speculative.

**Lead manager and underwriter**  
Morgans Corporate Limited

**A Better  
Way.**





**Smiles**<sup>Inclusive</sup>  
*Together We Smile*

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# IMPORTANT NOTICES

**This Prospectus is an important document and should be read in its entirety. You should seek professional advice if you have any questions about the Offer Shares being offered under this Prospectus, or any matter relating to an investment in the Company. An investment in the Shares offered by this Prospectus is considered to be speculative.**

## Offer

The offer contained in this Prospectus is an invitation to acquire fully paid ordinary shares (**Shares**) in the Company (**Offer**). No Shares will be issued under the Offer unless \$35 million has been raised.

## Lodgement and Listing

This Prospectus is dated 13 March 2018 (**Prospectus Date**) and was lodged with ASIC on that date.

The Company will apply to ASX within seven days after the Prospectus Date for admission to the Official List and for quotation of its Shares on the ASX. Neither ASIC nor ASX takes any responsibility for the contents of this Prospectus or the merits of the investment to which this Prospectus relates.

## Expiry Date

This Prospectus expires on the date which is 13 months after the Prospectus Date. No Shares will be allotted or transferred on the basis of this Prospectus after the expiry date.

## Exposure Period

Under the Corporations Act, the Company must not process Application Forms during the seven-day period after the date of lodgement of this Prospectus with ASIC, noting that this period may be extended by ASIC for up to a further seven days (**Exposure Period**).

This Exposure Period enables the Prospectus to be examined by market participants prior to the raising of funds. The examination may result in the identification of deficiencies in this Prospectus, in which case any Application may need to be dealt with in accordance with section 724 of the Corporations Act.

Application Forms received during the Exposure Period will not be processed until after the expiry of that period. No preference will be given to Application Forms received during the Exposure Period.

## Note to Applicants

This Prospectus provides information for investors to decide if they wish to invest in the Company. You should read this document in its entirety. The information contained in individual sections is not intended to and does not provide a comprehensive review of the business and the financial affairs of the Group or the Shares offered under this Prospectus. Examine the assumptions underlying the Financial Information and the risk factors that could affect the financial performance of the Group. Consider these factors carefully in light of your personal financial circumstances. Seek professional advice from your accountant, stockbroker, lawyer or other professional adviser before deciding whether to invest. The Offer is not financial product advice and does not take into account the investment objectives, financial situation or needs of particular investors. The Company is not licensed to provide financial product advice in respect of Shares or other financial products.

## Information about the Group

This Prospectus contains certain information about the Group, its directors, senior executives and business. It also contains details of their investment approach, strategy and philosophy.

## Disclaimer

No person is authorised by the Company or the Lead Manager and Underwriter to give any information or make any representation in connection with the Offer that is not contained in this Prospectus. Any information or representation not contained in this Prospectus may not be relied on as having been authorised by the Company, the Directors or any other person in connection with the Offer. The Group's business, financial condition, results of operations and prospects may have changed since the Prospectus Date. Neither the Company nor any person associated with the Company or the Offer guarantees or warrants the future performance of the Company, the return on an investment made under this Prospectus, the repayment of capital or the payment of dividends on the Shares.

This Prospectus includes information regarding the Group's past performance. Past performance should not be relied upon as being indicative of future performance.

This Prospectus contains forward-looking statements concerning the Group's business, operations, financial performance and condition as well as the Group's plans, objectives and expectations. Any statements contained in this Prospectus that are not of historical facts may be deemed to be forward-looking statements. You can identify these statements by words such as 'aim', 'anticipate', 'assume', 'believe', 'could', 'due', 'estimate', 'expect', 'forecasts', 'guidance', 'goal', 'intend', 'may', 'objective', 'outlook', 'plan', 'predict', 'potential', 'positioned', 'should', 'target', 'will', 'would' and other similar expressions that are predictions of or indicate future events and future trends. These forward-looking statements are based on current expectations, estimates, forecasts and projections about the Group's business and the industry in which the Group operates and management's beliefs and assumptions.

Any forward-looking statements are subject to various risks, that are in some cases beyond the Group's control and which could cause the Group's actual results to differ materially from the results expressed or anticipated in these statements. These forward-looking statements are provided as a general guide only and are not guarantees of future performance or development. As a result, any or all of the Group's forward-looking statements in this Prospectus may turn out to be inaccurate. Factors that may cause such differences or make such statements inaccurate include, but are not limited to, the risk factors described in Sections 1 and 5.

Potential investors and other readers are urged to consider these factors carefully in evaluating the forward-looking statements and are cautioned not to place undue reliance on the forward-looking statements. These forward-looking statements speak only as at the Prospectus Date. Unless required by law, the Company does not intend to publicly update or revise any forward-looking statements to reflect new information or future events or otherwise. You should, however, review the factors and risks the Company describes in the reports to be filed from time to time with ASX after the Prospectus Date.

Some numerical figures included in this Prospectus have been subject to rounding adjustments. Accordingly, numerical figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that preceded them.

### **Investigating Accountant's Report on Pro Forma Historical Financial Information and on Forecast Financial Information and Financial Services Guide**

The provider of the Investigating Accountant's Report on Pro Forma Historical Financial Information and Forecast Financial Information is the Investigating Accountant who is required to provide Australian retail clients with a financial services guide in relation to the review under the Corporations Act (**Financial Services Guide**). The Investigating Accountant's Report and accompanying Financial Services Guide are provided in Section 8.

### **Australian and New Zealand residents**

The Offer is available to Australian and New Zealand residents in each state and territory of Australia and each province of New Zealand. This Prospectus does not constitute an offer or invitation in any place in which, or to any person to whom, it would not be lawful to make such an offer or invitation. No action has been taken to register or qualify the Shares or the Offer, or to otherwise permit a public offer of Shares, in any jurisdiction outside Australia or New Zealand.

The distribution of this Prospectus outside Australia and New Zealand (including electronically) may be restricted by law and persons who come into possession of this Prospectus outside Australia and New Zealand should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws.

The Company is entitled to refuse an application for Shares under this Prospectus if it believes that Applicant received the Offer outside Australia in non-compliance with the laws of the relevant foreign jurisdiction.

### **Notice to New Zealand residents**

The Offer to New Zealand investors is a regulated offer made under Australian and New Zealand law. In Australia, this is Chapter 8 of the *Corporations Act 2001* (Cth) and regulations made under that Act. In New Zealand, this is subpart 6 of Part 9 of the *Financial Markets Conduct Act 2013* (NZ) and Part 9 of the *Financial Markets Conduct Regulations 2014* (NZ).

The Offer and the content of the Prospectus are principally governed by Australian rather than New Zealand law. In the main, the Corporations Act and the regulations made under the Corporations Act set out how the Offer must be made.

There are differences in how financial products are regulated under Australian law. For example, the disclosure of fees for managed investment schemes is different under the Australian regime.

The rights, remedies, and compensation arrangements available to New Zealand investors in Australian financial products may differ from the rights, remedies, and compensation arrangements for New Zealand financial products.

Both the Australian and New Zealand financial markets regulators have enforcement responsibilities in relation to this Offer. If you need to make a complaint about this Offer, please contact the Financial Markets Authority, New Zealand (<http://www.fma.govt.nz>). The Australian and New Zealand regulators will work together to settle your complaint.

The taxation treatment of Australian financial products is not the same as for New Zealand financial products.

If you are uncertain about whether this investment is appropriate for you, you should seek the advice of an appropriately qualified financial adviser.

The price of the Offer is set in Australian dollars, and therefore the Offer may involve a currency exchange risk. The currency for the financial products is not New Zealand dollars. The value of the financial products will go up or down according to changes in the exchange rate between that currency and New Zealand dollars. These changes may be significant.

If you expect the financial products to pay any amounts in a currency that is not New Zealand dollars, you may incur significant fees in having the funds credited to a bank account in New Zealand in New Zealand dollars.

If the financial products are able to be traded on a financial product market and you wish to trade the financial products through that market, you will have to make arrangements for a participant in that market to sell the financial products on your behalf. If the financial product market does not operate in New Zealand, the way in which the market operates, the regulation of participants in that market, and the information available to you about the financial products and trading may differ from financial product markets that operate in New Zealand.

### **Notice to United States residents**

The Shares being offered pursuant to this Prospectus have not been registered under the United States Securities Act of 1933, as amended (the *US Securities Act*) or any US state securities laws and may not be offered or sold in the United States absent registration or an applicable exemption from registration under the US Securities Act and applicable state securities laws. This Prospectus does not constitute an offer to sell, or the solicitation of an offer to buy, nor shall there be any sale of these Shares in any state or other jurisdiction in which such offer, solicitation or sale would be unlawful under applicable law, including the US Securities Act. In addition, any hedging transactions involving these Shares may not be conducted unless in compliance with the US Securities Act.

### **Notice to Hong Kong residents**

WARNING: This document has not been, and will not be, registered as a prospectus under the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong, nor has it been authorised by the Securities and Futures Commission in Hong Kong pursuant to the Securities and Futures Ordinance (Cap. 571) of the Laws of Hong Kong (the **SFO**). No action has been taken in Hong Kong to authorise or register this document or to permit the distribution of this document or any documents issued in connection with it. Accordingly, the Offer Shares have not been and will not be offered or sold in Hong Kong other than to 'professional investors' (as defined in the SFO).

No advertisement, invitation or document relating to the Offer Shares has been or will be issued, or has been or will be in the possession of any person for the purpose of issue, in Hong Kong or elsewhere that is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Offer Shares that are or are intended to be disposed of only to persons outside Hong Kong or only to professional investors (as defined in the SFO and any rules made under that ordinance). No person allotted Offer Shares may sell, or

offer to sell, such securities in circumstances that amount to an offer to the public in Hong Kong within six months following the date of issue of such securities.

The contents of this document have not been reviewed by any Hong Kong regulatory authority. You are advised to exercise caution in relation to the Offer. If you are in doubt about any contents of this document, you should obtain independent professional advice.

#### **Notice to Singapore residents**

This document and any other materials relating to the Offer Shares have not been, and will not be, lodged or registered as a prospectus in Singapore with the Monetary Authority of Singapore.

Accordingly, this document and any other document or materials in connection with the offer or sale, or invitation for subscription or purchase, of Offer Shares, may not be issued, circulated or distributed, nor may the Offer Shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore except pursuant to and in accordance with exemptions in Subdivision (4) Division 1, Part XIII of the Securities and Futures Act, Chapter 289 of Singapore (the SFA), or as otherwise pursuant to, and in accordance with the conditions of any other applicable provisions of the SFA.

This document has been given to you on the basis that you are (i) an existing holder of the Company's shares, (ii) an 'institutional investor' (as defined in the SFA) or (iii) a 'relevant person' (as defined in section 275(2) of the SFA). In the event that you are not an investor falling within any of the categories set out above, please return this document immediately. You may not forward or circulate this document to any other person in Singapore.

Any offer is not made to you with a view to the Offer Shares being subsequently offered for sale to any other party. There are on-sale restrictions in Singapore that may be applicable to investors who acquire Offer Shares. As such, investors are advised to acquaint themselves with the SFA provisions relating to resale restrictions in Singapore and comply accordingly.

Subject to the relevant provisions of the SFA, where the Offer Shares are subscribed or purchased under section 275 of the SFA by a relevant person who is a corporation (which is not an accredited investor) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor, such Offer Shares of that corporation shall not be transferable within six months after that corporation has acquired the Offer Shares pursuant to section 275 of the SFA unless:

- » that transfer is made only to an institutional investor under section 274 of the SFA or to a relevant person as defined in section 275(2) of the SFA, or where the transfer arises from an offer referred to in Section 275(1A) of the SFA;
- » no consideration is given for the transfer; or
- » the transfer is by operation of law.

Subject to the relevant provisions of the SFA, where the Offer Shares are subscribed or purchased under section 275 of the SFA by a relevant person who is a trustee of a trust (who is not an accredited investor) the sole purpose of which is to hold investments and each beneficiary of which is an individual who is an accredited investor, such beneficiaries' rights and interests in that trust shall not be transferable for six months after that trust has acquired the Offer Shares pursuant to section 275 of the SFA unless:

- » that transfer is made only to an institutional investor under section 274 of the SFA or to a relevant person as defined in section 275(2) of the SFA, or where the transfer arises from an offer that is made on terms that such rights or interests are acquired at a consideration of not less than S\$200,000 (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid in cash or by exchange of securities or other assets;
- » no consideration is given for the transfer; or
- » the transfer is by operation of law.

The Offer or invitation which is the subject of this Prospectus is not accompanied by any advertisement making an offer or calling attention to the Offer or intended Offer; and no selling or promotional expenses shall be paid or incurred in connection with the Offer other than those incurred for administrative or professional services, or by way of commission or fee for services rendered by any of the service providers of the Group.

#### **Obtaining a copy of this Prospectus**

During the Exposure Period, an electronic version of this Prospectus without an Application Form will be available at [www.smilesinc.com.au/prospectus](http://www.smilesinc.com.au/prospectus). Application Forms will not be made available until after the Exposure Period has expired.

During the Offer Period, this Prospectus will be available to investors in electronic form at [www.smilesinc.com.au/prospectus](http://www.smilesinc.com.au/prospectus). Any person accessing the electronic version of this Prospectus, for the purpose of making an investment in the Company, must only access the Prospectus from within Australia or New Zealand, or any jurisdiction outside Australia or New Zealand where the distribution of the electronic version of this Prospectus is not restricted by law.

The Application Form attached to the electronic version of this Prospectus must be used within Australia or New Zealand only. Electronic versions of this Prospectus should be downloaded and read in their entirety. You may, before the end of the Offer Period, obtain a paper copy of the Prospectus (free of charge) by calling the Offer Information Line on 1800 990 479 (within Australia) or +61 1800 990 479 (outside Australia) between 8.30am and 5.30pm AEST.

Applications for Offer Shares may only be made on the Application Form attached to this Prospectus or in its paper copy form downloaded in its entirety from [www.smilesinc.com.au/prospectus](http://www.smilesinc.com.au/prospectus). The Corporations Act prohibits any person from passing the Application Form to another person unless it is attached to a hard copy of the Prospectus or the complete and unaltered electronic version of this Prospectus. If the Prospectus is found to be deficient, any Applications may need to be dealt with in accordance with section 724 of the Corporations Act.

## Applications

By lodging an Application Form, you declare that you were given access to the entire Prospectus, together with an Application Form. The Company will not accept a completed Application Form if it has reason to believe that an Application Form lodged by an Applicant was not accompanied by, or attached to, the Prospectus or if it has reason to believe that the Application Form has been altered or tampered with in any way.

## No cooling off rights

Cooling off rights (whether provided at law or otherwise) do not apply to an investment in Shares pursuant to the Offer. This means that, in most circumstances, you cannot withdraw your Application once it has been accepted.

## Privacy

By completing an Application Form or authorising a Broker to do so on your behalf, you are providing personal information to the Company and the Share Registry, which is contracted by the Company to manage Applications, and consent to the collection, storage, use and disclosure of that personal information in accordance with these terms. That personal information will be collected, held, used and disclosed both in and outside of Australia by the Company, and the Share Registry on its behalf, to process your Application, service your needs as a security holder, provide facilities and services that you request and carry out appropriate administration of your investment. If you do not wish to provide this information, the Company (or the Share Registry) may not be able to process your Application.

Once you become a Shareholder, the Corporations Act requires information about you (including your name, address and details of the Shares you hold) to be included in the Company's Shareholder register, which will be accessible by the public. This information must continue to be included in the Company's public Shareholder register even if you cease to be a Shareholder.

The Company, and the Share Registry on its behalf, may disclose your personal information for purposes related to your investment to their agents and service providers (which may be located outside of Australia) including those listed following or as otherwise authorised under the *Privacy Act 1988* (Cth): the Share Registry for ongoing administration of the Company's public Shareholder register, printers and other companies for the purpose of preparation and distribution of documents and or handling mail, the Lead Manager and Underwriter in order to assess your Application, market research companies for the purpose of analysing the Company's Shareholder base and for product development and planning and legal and accounting firms, auditors, management consultants and other advisers for the purpose of administering and advising on the Shares and for associated actions.

Under the *Privacy Act 1988* (Cth), you may request access to your personal information that is held by, or on behalf of, the Company. You can request access to your personal information or obtain further information about the Company's privacy practices by contacting the Company or its Share Registry, details of which are set out elsewhere in this Prospectus. The Company aims to ensure that the personal information it retains about you is accurate, complete and up to date. To assist with this, please contact the Company or the Share Registry if any of the details you have provided change.

## Currency

Unless otherwise specified, monetary amounts are expressed in Australian dollars. The Financial Information shown in this Prospectus is presented in Australian dollars.

## Company website

Any references to documents included on the Company's website are provided for convenience only, and none of the documents or other information on the website is incorporated by reference into this Prospectus.

## Photographs and diagrams

Any photographs or diagrams used in this Prospectus and that do not have descriptions are for illustrative purposes only and should not be interpreted to mean that any person shown in them endorses this Prospectus or its contents, or that the Company owns or uses any assets shown in such photographs or diagrams. Unless otherwise stated, all data contained in charts, graphs and tables is based on information available at the Prospectus Date.

## Defined terms

Some terms used in this Prospectus are defined in the Glossary. All references to time in this Prospectus refer to Australian Eastern Standard Time unless otherwise specified.

## THIS DOCUMENT IS IMPORTANT AND SHOULD BE READ IN ITS ENTIRETY.

## IMPORTANT DATES

Lodgement of the Prospectus with ASIC	13 March 2018
Offer Opening Date	21 March 2018
Dentist Participation Offer closes	6 April 2018
Broker Firm Offer and Institutional Offer close	11 April 2018
Offer Settlement Date	12 April 2018
Offer Shares Allotment Date	17 April 2018
Expected date for despatch of holding statements	18 April 2018
Expected commencement of trading of Shares on ASX (on a normal settlement basis)	27 April 2018

The above timetable is indicative only and may change. The Company reserves the right to vary the dates and times set out above subject to the Corporations Act and other applicable laws. In particular, the Company reserves the right to close the Offer early, extend the Offer Closing Date or accept late Applications, either generally or in particular cases, or to cancel or withdraw the Offer before the allocation of Shares, in each case without notifying any recipients of this Prospectus or any Applicants. If the Offer is cancelled or withdrawn before Listing, then all Application Monies will be refunded in full (without interest) as soon as possible in accordance with the requirements of the Corporations Act. Investors who wish to submit an Application are encouraged to do so as soon as practicable after the Offer opens.

## KEY OFFER STATISTICS

Company	Smiles Inclusive Limited
Shares offered	Fully paid ordinary shares
Issue Price per Offer Share	\$1.00
Number of Offer Shares available under the Offer	35 million Shares
Gross proceeds of the Offer	\$35 million
Total number of Shares expected to be on issue at Completion of the Offer <sup>1</sup>	57,932,900 Shares
Market capitalisation at the Issue Price <sup>2</sup>	Approximately \$57.9 million
Pro forma historical aggregated FY17 EBITDA	\$7.0 million
Pro forma historical aggregated FY17 EBIT	\$5.9 million
Pro forma historical aggregated FY17 NPAT	\$3.9 million
Pro forma forecast FY18 EBITDA	\$9.5 million
Pro forma forecast FY18 EBIT	\$8.7 million
Pro forma forecast FY18 NPAT	\$5.8 million
Enterprise value <sup>3</sup> / pro forma forecast FY18 EBITDA	7.0 times
Enterprise value / pro forma forecast FY18 EBIT	7.7 times
Market capitalisation at the Issue Price / pro forma forecast FY18 NPAT	9.9 times
Net debt <sup>4</sup> / pro forma forecast FY18 EBITDA	0.9 times

Further details regarding the Pro Forma Historical Financial Information and Pro Forma Forecast Financial Information (including the statutory forecast for FY18) are contained in Section 4. The Financial Information should be read in conjunction with the risk factors set out in Section 5 and other information contained in this Prospectus.

### How to invest

Applications for Shares can be made in accordance with the procedures described in this Prospectus. Instructions on how to apply for Shares are set out in Section 7 and on the reverse of the Application Form.

<sup>1</sup> Which includes the Offer Shares, the Shares on issue at the Prospectus Date and the Shares to be issued upon the Convertible Note Conversion detailed in Section 10.7.

<sup>2</sup> Market capitalisation at the Issue Price is defined as the Issue Price multiplied by the total number of Shares expected to be on issue at Completion of the Offer.

<sup>3</sup> Enterprise value is calculated as the sum of the market capitalisation at the Issue Price and the net debt. Net debt is calculated as the drawn amount under the Finance Facility net of cash after completion of the Offer and completion of the Acquisitions.

<sup>4</sup> Net debt is calculated as the drawn amount under the Finance Facility net of cash after completion of the Offer and completion of the Acquisitions.

# LETTER FROM THE CHAIR

Dear Investor,

On behalf of the Board of Smiles Inclusive Limited (**Smiles Inclusive** or the **Company**), it is my pleasure to invite you to become a Shareholder.

Smiles Inclusive has identified an opportunity to acquire dental practices across Australia and establish a new national dental brand, **Totally Smiles** which aims to be one of Australia's leading national dental brands.

At the Prospectus Date, the Company has (through its wholly-owned subsidiary, Totally Smiles), entered into agreements (**Acquisition Agreements**) to acquire 52 dental practices across Australia (**Practices**).<sup>5</sup> The model for the acquisitions has been materially consistent, however completion of the Acquisitions is subject to a number of conditions precedent being satisfied or waived, including the completion the Offer under this Prospectus.

Smiles Inclusive has developed a business model which we consider provides a compelling proposition for patients, our dental practitioners, JV Partners and investors. Under this model:<sup>6</sup>

- » **Ownership:** Totally Smiles owns the dental practices, with the initial Practices being acquired under the Acquisition Agreements.
- » **Re-investment in Totally Smiles:** the vendors under the Acquisition Agreements (or their nominees) re-invest a substantial share of the purchase price to participate in a profit sharing program for the Practice. Although Totally Smiles owns the business, its profit sharing partner (**JV Partner**) is entitled to share in the ongoing profit of the relevant Practice in accordance with the Joint Venture Partner Programme, as well as retaining exposure to movements in capital value.
- » **Retaining practitioners:** Totally Smiles contracts with dentists under a Facilities and Services Agreement (**FASA**) to provide dental facilities and support services (such as staff, equipment, marketing and administration) to the dentist following completion of the Acquisition Agreement. The dentist stays on at the Practice providing dental services to patients at the Group's practice.

The Group's plans for future growth involve:

- » optimisation of Practice operations, generating cost efficiencies through scale, increased purchasing power and improved practice management;
- » increasing revenue of acquired assets, including by improving chair utilisation, enhancing the patient experience and direct marketing initiatives;
- » investment in Practices, including equipment and technology upgrades and provision of expanded services; and
- » further acquisitions.

In adopting this strategy, the Group will deploy its management and administrative expertise into established businesses, allowing practitioners to maximise their time spent treating patients.

The Group's senior management team is led by Mike Timoney, who has substantial experience building dental groups. Mike has assembled an executive with long term experience in dental and complementary industries, including dental practice management, allied healthcare delivery, medical technology, nationally branded retail chain operation and listed company financial management.

An undertaking like this presents unique challenges and risks, however the management team expects to be able to leverage their skills and experience across the acquisition and integration process.

An offer of 35 million Shares at \$1.00 per Share is being made under this Prospectus to raise \$35 million. The Offer is fully underwritten. Proceeds of the Offer will be used primarily to fund the Acquisitions.

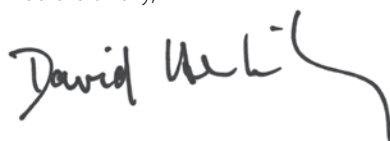
New Shareholders will hold approximately 60% of the Shares in the Company upon Completion of the Offer.

The Company aims to provide a combination of capital and income returns to Shareholders and has established a dividend policy targeting payment of between 40% and 60% of NPAT to Shareholders as dividends commencing in FY19.

This Prospectus contains detailed information about the Offer, the industry in which the Group operates, its business and historical and forecast financial performance of the Practices and the Group. The Group is subject to a range of risks both inside and outside its control, which are discussed in detail in Section 5 and include among others, risks related to completion of the Acquisitions, integration of the Practices, reliance on dental practitioners and the Group's limited operational history. I encourage you to read the Prospectus in full and to carefully consider the Offer.

I am truly excited to be working with Smiles Inclusive as Chairman, a business that has strong growth prospects in an attractive industry. On behalf of my fellow Directors and our management team, we look forward to welcoming you as a Shareholder.

Yours faithfully,



**David Herlihy**  
Chairman

<sup>5</sup> Number of practices may not equate to the number of fixed premises. A single practice may have multiple outlets. Figure includes one mobile practice.

<sup>6</sup> Terms based on the template model. It is noted that Smiles Inclusive has agreed certain variances on a case by case basis.



## SECTION 1

# Investment Overview

The information set out in this Section 1 is intended to be a summary only and should be read in conjunction with the more detailed information appearing elsewhere in this Prospectus. In deciding whether to apply for Offer Shares, you should read this Prospectus carefully and in its entirety. If you are in doubt as to the course you should follow, please consult your professional advisers.

## 1.1. Introduction

TOPIC	SUMMARY	MORE INFORMATION
<b>Who is the issuer of this Prospectus?</b>	Smiles Inclusive Limited ACN 621 105 824 ( <b>Smiles Inclusive</b> or <b>Company</b> ).	
<b>What is Smiles Inclusive?</b>	<p>Smiles Inclusive is the holding company of the Group.</p> <p>Following completion of the Acquisitions, the Group expects to have acquired 52 Practices,<sup>7</sup> which will be brought under the new '<b>Totally Smiles</b>' brand. The initial Practices are located in Queensland, New South Wales, Victoria, the Australian Capital Territory, South Australia and Western Australia.</p> <p>Totally Smiles, having acquired the Practices, will contract to provide to dentists all facilities and services necessary for dental practitioners to provide dental services to patients of the Practice, and will receive a service fee from dental practitioners for these services. This will be under a Facilities and Services Agreement (<b>FASA</b>).</p> <p>The Group's business model involves former owners of the Practices (or their nominees or transferees) (<b>JV Partners</b>) entering into Practice-specific profit sharing arrangements under the Joint Venture Partner Programme. The JV Partners typically buy-in to the Joint Venture Partner Programme under a Joint Venture Partner Agreement for a single upfront contribution, and are entitled to an agreed proportion of the profit of the relevant Practice, as well as retaining exposure to movements in the capital value of the Practice. The Directors consider that this helps to maintain alignment between practice management and the Group.</p>	Sections 3 and 10.3 to 10.5
<b>What are the Acquisitions and how are they being funded?</b>	<p>Totally Smiles will acquire the Practices through the Acquisitions.</p> <p>The Acquisitions will generally occur in accordance with a business sale agreement pursuant to which Totally Smiles will acquire the business and assets of the Practice. One Acquisition will occur by Totally Smiles acquiring the share capital of the company that operates the Practice.</p> <p>The aggregate amount required by the Group to fund completion of the Acquisition Agreements is expected to be approximately \$66 million, of which approximately \$21 million is expected to be contributed by JV Partners under the Joint Venture Partner Agreements.</p> <p>The net amount payable by Totally Smiles is proposed to be funded by proceeds of the Offer and funds drawn under the Finance Facility.</p>	Sections 3 and 10.3
<b>What is the Offer?</b>	The Offer is an initial public offer of 35 million Shares, which are to be issued by the Company at a price of \$1.00 per Share. The Offer is expected to raise \$35 million.	Section 7
<b>Why is the Offer being conducted?</b>	<p>The Company is seeking to raise funds and list on ASX to:</p> <ul style="list-style-type: none"> <li>» complete the Acquisitions, creating its initial portfolio of Practices;</li> <li>» gain access to capital markets to facilitate future acquisitions;</li> <li>» realise the benefits of a public profile associated with being a listed entity; and</li> <li>» provide a liquid market for the Shares.</li> </ul> <p>Existing Shareholders are not selling down any shares as part of the Offer.</p>	Section 7

<sup>7</sup> Number of practices may not equate to the number of fixed premises. A single practice may have multiple fixed premises. Figure includes one mobile practice.

## 1.2. Key features of Smiles Inclusive's business model

TOPIC	SUMMARY	MORE INFORMATION
<b>What is Smiles Inclusive's strategy, and how will it generate returns for investors?</b>	<p>The Group has contracted to acquire a portfolio of Practices, which is part of its strategy to become a leading Australian dental brand. The Group's ability to deliver on its strategy and business model is contingent upon Completion of the Offer and completion of a substantial number of the Acquisitions.</p> <p>Planning for completion of the Acquisitions is well progressed and the Company intends to complete as many as possible in one line prior to Listing. ASX will require completion of a threshold level of Acquisitions prior to Listing occurring and the Company has also agreed with the Lead Manager and Underwriter that it must be satisfied with progress towards completing the Acquisitions (acting reasonably) prior to the Offer Shares being issued and allotted. Despite the Company's detailed planning, the volume of Acquisitions to be completed in a short time frame means that there could be a delay in completion of a small number of the Acquisitions as set out in the risks in Sections 1.4 and 5.1. The Directors are confident that should this occur, the Company would either complete the Acquisitions following quotation of its Shares or alternatively enter into and complete new acquisitions shortly thereafter. Further details of the criteria by which the Company considers acquisitions are set out in Section 3.</p> <p>Following completion of the Acquisitions, the Group will execute its detailed integration plans to bring the acquired Practices under the Totally Smiles brand and implement consistent systems and operational processes. This will be a staged process focussing on core elements and aimed at ensuring a smooth transition process.</p> <p>The Group's plans for future growth involve:</p> <ul style="list-style-type: none"> <li>» optimisation of Practice operations, generating cost efficiencies through scale, increased purchasing power and improved practice management;</li> <li>» increasing revenue of acquired assets, including by improving chair utilisation, enhancing the patient experience and direct marketing initiatives;</li> <li>» investment in Practices, including equipment and technology upgrades and provision of expanded services; and</li> <li>» further acquisitions.</li> </ul>	Section 3
<b>What is Smiles Inclusive's business model?</b>	<p>The Group has contracted to provide fully functioning dental practices and ancillary services to contracted dentists under the terms of the FASA. Under the FASA, the Group generally receives services fees based on a proportion of net patient receipts.</p> <p>The Group has also established its Joint Venture Partner Programme to allow former owners of the Practices (or their nominees or transferees) to share in the ongoing growth of the Practice by receiving a share of the profits generated from that particular Practice, and the opportunity to realise value for its interest under the Joint Venture Partner Programme.</p> <p>The FASA and the Joint Venture Partner Programme have been structured to incentivise productivity at Practice level.</p>	Sections 3, 10.4 and 10.5
<b>What services will the Group offer?</b>	<p>Following completion of the Acquisitions, the Practices will continue to provide a range of general, family and specialist dental services.</p> <p>The Group's service offering to both practitioners and patients will include:</p> <ul style="list-style-type: none"> <li>» fully operational dental practices, including surgery, reception and waiting rooms;</li> <li>» experienced practice management and administrative staff, dental support staff and reception staff;</li> <li>» electronic practice management systems for booking services, maintaining patient records and invoicing;</li> <li>» HICAPS (health fund on the spot claiming);</li> <li>» head office support, including compliance, administration and negotiation with private health fund insurers; and</li> <li>» marketing services.</li> </ul>	Section 3

TOPIC	SUMMARY	MORE INFORMATION																																
What are the benefits of Smiles Inclusive's business model?	<p>Smiles Inclusive's business model offers different benefits to key stakeholders.</p> <p>Dental practitioners who enter into FASAs will receive fully operational facilities and a wide range of management and support services from the Group, which will reduce practice management demands and allow more time to treat patients, with money earned linked to productivity. Practitioners will also have access to Group services and initiatives, including marketing.</p> <p>Participants in the Joint Venture Partner Programme, who are generally the former owners of the Practices (or their nominees or transferees), also have the opportunity to share in the ongoing profits of a particular Practice in accordance with the Joint Venture Partner Programme, as well as retaining exposure to movements in capital value of the Practice. This is expected to help maintain alignment between practice management and the Group.</p>	Section 3.4																																
Why will patients use Smiles Inclusive's services?	The Group intends to operate and enhance a network of modern, well-equipped facilities. Patients will generally have access to the same practitioners who worked in the Practices prior to the Acquisitions, together with the benefits that come from a national brand. Patients will also benefit from the Group's patient engagement and communication strategies.	Section 3																																
How does Smiles Inclusive generate income?	<p>The Group will primarily generate its revenue from service fees charged to practitioners under the terms of the FASAs.</p> <p>The Group will also earn direct dental services revenue (for example, where practitioners and service providers are employed by the Group) and have additional revenue streams including from direct retail sales.</p>	Section 3																																
What are Smiles Inclusive's major costs?	The Group's most significant expenses will be profit share payments under the Joint Venture Partner Programme, payments to personnel and occupancy expenses.	Sections 3 and 4																																
What is Smiles Inclusive's historical and forecast financial performance?	<p>The Group's pro forma historical financial performance and forecast financial performance is summarised in the table below:</p> <table><tr><th></th><th>PRO FORMA HISTORICAL FY17</th><th>PRO FORMA FORECAST FY18</th><th>STATUTORY FORECAST FY18</th></tr><tr><td>\$ MILLION</td><td></td><td></td><td></td></tr><tr><td>Gross practice revenue</td><td>51.9</td><td>57.6</td><td>14.4</td></tr><tr><td>Direct costs<sup>8</sup></td><td>15.9</td><td>16.2</td><td>4.1</td></tr><tr><td>Net Revenue</td><td>36.0</td><td>41.4</td><td>10.3</td></tr><tr><td>EBITDA</td><td>7.0</td><td>9.5</td><td>(0.2)</td></tr><tr><td>EBIT</td><td>5.9</td><td>8.7</td><td>(0.4)</td></tr><tr><td>NPAT</td><td>3.9</td><td>5.8</td><td>(0.3)</td></tr></table>		PRO FORMA HISTORICAL FY17	PRO FORMA FORECAST FY18	STATUTORY FORECAST FY18	\$ MILLION				Gross practice revenue	51.9	57.6	14.4	Direct costs <sup>8</sup>	15.9	16.2	4.1	Net Revenue	36.0	41.4	10.3	EBITDA	7.0	9.5	(0.2)	EBIT	5.9	8.7	(0.4)	NPAT	3.9	5.8	(0.3)	Section 4
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How does Smiles Inclusive expect to fund its activities?	<p>The Acquisitions are proposed to be funded by proceeds of the Offer and funds drawn under the Finance Facility.</p> <p>The ongoing operations of the Group are expected to be funded through cash flow from operations.</p> <p>Following completion of the Acquisitions, the Group expects to have \$27 million available, including capacity under the Finance Facility, which may be used to fund further acquisitions and meet working capital requirements.</p> <p>The Group intends to operate with a net debt to equity ratio of below 40%.</p>	Sections 10.2 and 4																																

8 Represents the service fees due to practitioners under the FASA. Further information is provided in Section 4.6.2.

TOPIC	SUMMARY	MORE INFORMATION																								
How will the proceeds of the Offer be used?	<p>The table below sets out a summary of the anticipated use of the seed funding, proceeds of the Offer and funds under the Finance Facility.</p> <table><tr><th>SOURCE OF FUNDS</th><th>\$ MILLIONS</th></tr><tr><td>Funds raised through Convertible Notes</td><td>5.3</td></tr><tr><td>Issue of Offer Shares</td><td>35</td></tr><tr><td>Funds available under Finance Facility</td><td>36</td></tr><tr><td><b>Total</b></td><td>76.3</td></tr><tr><th>USE OF PROCEEDS</th><th>\$ MILLIONS</th></tr><tr><td>Fund the Acquisitions (net of capital contributions from vendors and others to participate in the Joint Venture Partner Program)</td><td>44.5</td></tr><tr><td>Upfront costs under Finance Facility</td><td>0.2</td></tr><tr><td>Initial integration of Practices</td><td>1.3</td></tr><tr><td>Pay costs of the Offer</td><td>3.3</td></tr><tr><td><b>Total</b></td><td>49.3</td></tr><tr><td>Funds available for working capital and future acquisitions</td><td>27.0</td></tr></table>	SOURCE OF FUNDS	\$ MILLIONS	Funds raised through Convertible Notes	5.3	Issue of Offer Shares	35	Funds available under Finance Facility	36	<b>Total</b>	76.3	USE OF PROCEEDS	\$ MILLIONS	Fund the Acquisitions (net of capital contributions from vendors and others to participate in the Joint Venture Partner Program)	44.5	Upfront costs under Finance Facility	0.2	Initial integration of Practices	1.3	Pay costs of the Offer	3.3	<b>Total</b>	49.3	Funds available for working capital and future acquisitions	27.0	Section 7.5
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What is the Company's dividend policy?	<p>The Board will declare and pay dividends at its discretion based on operating and financial performance, the Company's financial position, the availability of growth opportunities and any other factors the Directors deem relevant. Subject to these matters and those described in Section 4.10, the Company has established a dividend policy targeting payment of between 40% and 60% of NPAT to Shareholders as dividends commencing in FY19.</p>	Section 4.10																								

### 1.3. Summary of key benefits

TOPIC	SUMMARY	MORE INFORMATION
<b>Dental services market</b>	<p>Published data indicates that the Australian dental industry in FY18 is expected to generate total revenue of over \$10 billion, provide over \$2.5 billion in wages and return profits of over \$2 billion.</p> <p>It is a growing industry that has experienced average annual revenue growth over the last five years (up to and including projections for FY18) of over 3%.</p> <p>The last five years have seen some growth in corporate groups operating in the dental industry, however the Australian industry remains highly fragmented with no enterprise holding over 5% market share.</p>	<b>Section 2</b>
<b>Initial acquisitions and growth potential</b>	<p>The Group has entered into binding Acquisition Agreements that will allow it to establish an initial network of Practices across Queensland, New South Wales, Victoria, the Australian Capital Territory, South Australia and Western Australia.</p> <p>Smiles Inclusive believes there is opportunity for growth, both organically and through further acquisitions in the future.</p> <p>The Group intends to integrate the Practices and sees opportunity to generate cost efficiencies through scale, increased purchasing power and improved practice management. The Group's organic growth is also expected to be driven by delivery of enhanced dental services, increased chair utilisation and Group marketing initiatives.</p>	<b>Section 3</b>
<b>Acquisition strategy</b>	<p>Smiles Inclusive considers that the Group has a scalable business model and its capital structure provides scope for growth through acquisitions. The Group intends to seek new practices and it will assess opportunities on a case by case basis with reference to its existing network of practices and strategic objectives.</p>	<b>Section 3</b>
<b>Strong leadership team</b>	<p>The Group is led by an experienced Board and executive team:</p> <ul style="list-style-type: none"> <li>» Mike Timoney (CEO and Managing Director) has substantial experience building dental groups, and has overseen the acquisition and initial public offer process.</li> <li>» David Herlihy (Chairman) has approximately 30 years' experience including as a chairman and director of ASX listed entities, and medium and large private enterprises.</li> <li>» David Usasz (Deputy Chairman) has over 40 years' experience including as a partner of PwC and its predecessor organisations, and has significant recent governance experience with ASX-listed entities.</li> <li>» Tracy Penn (Deputy CEO) has over 30 years' practice management experience in the dental industry and related fields.</li> </ul> <p>Further information on other members of the executive team is set out in Section 6.</p> <p>On Completion of the Offer, Directors and Senior Management (personally or through controlled entities) are expected to have relevant interests in approximately 20.9% of the issued Shares in the Company. These Shares will be subject to escrow arrangements for up to 24 months following Listing, as detailed in Section 11.7.</p>	<b>Section 6</b>

## 1.4. Key Risks

A list of the risks associated with an investment in the Company under this Prospectus is provided in Section 5. The following summary, which is not exhaustive, represents some of the major risk factors that Applicants need to be aware of:

TOPIC	SUMMARY	MORE INFORMATION
<b>Acquisitions</b>	<p>There are execution, due diligence and liability risks associated with the Acquisitions.</p> <p>The Acquisition Agreements contain obligations on the parties and conditions which, if not complied with or satisfied, could affect the operation of the Practices post-Acquisition, or delay or prevent the Acquisitions from completing. The failure to satisfy conditions of the Acquisition Agreements, or a failure to complete or any delay in completing any Acquisition could adversely affect the Group's ability to deliver on its business strategy, and its future performance.</p> <p>The Group has performed due diligence in respect of each of the Acquisitions and sought certain warranty and indemnity protections under the Acquisition Agreements. However, the Group may also suffer loss or damage flowing from historical events and operations of the Practices acquired, which the Group may be unable to recover from the vendors under the terms of the Acquisition Agreements.</p>	<b>Section 5.1</b>
<b>Integration risk</b>	<p>The Group will seek to integrate the Practices following Listing. Key integration risks include higher than expected integration costs, potential disruption to management and existing operations of the Practices, lower than expected cost synergies, the loss of patients and the impairment of business relationships (such as with staff and suppliers). This could adversely affect the financial performance and growth of the Group.</p>	<b>Section 5.1</b>
<b>Retention of dental practitioners</b>	<p>Under the terms of the FASAs, dental practitioners can generally terminate the agreement without cause, subject to the provision of six months' written notice to the Group.</p> <p>If a significant number of dental practitioners ceased using the Group's services or terminated their FASAs, and the Group were unable to adequately replace these practitioners, this could have a material detrimental impact on the Group's service fee revenue, its ability to deliver on its business strategy, and its future financial performance.</p>	<b>Section 5.1</b>
<b>Key management personnel</b>	<p>An investment in the Group is in large an investment in its key management personnel. The loss of key members of management, a change in the senior management team or the failure to attract additional skilled individuals to key management roles, could have a material adverse effect on the Group's operations, including its relationships with practitioners and suppliers.</p>	<b>Section 5.1</b>
<b>Joint Venture Partner Programme</b>	<p>The Group's model has been developed on the basis that JV Partners contribute capital to participate in the Joint Venture Partner Programme. If a significant number of JV Partners wished to exit the Joint Venture Partner Programme and the Group (or the exiting JV Partner) were unable to procure new JV Partners in respect of the relevant practice, or if JV Partners are unable to be procured in respect of future dental practice acquisitions, this will increase the Group's capital requirements and also its capital exposure to the relevant practices. This may also negatively affect the Group's financial position and growth, its ability to implement its proposed business strategy and model, and its alignment with practice management.</p>	<b>Sections 5.1 and 10.5</b>
<b>Technology risks</b>	<p>Following integration of the Practices, the Group intends to use consistent information communications technology and systems across its practices. The technology will be critical in managing employees, dental practitioners, patients and reporting requirements, including privacy obligations. Any significant interruption to these systems could adversely impact the Group's business, operating results and financial position.</p>	<b>Section 5.1</b>
<b>Payment structures</b>	<p>The Group has agreed to accept Bartercard trade dollars as payment for 'vouchers' issued by the Group for dental services. While the Group has identified opportunities to utilise the Bartercard trade dollars and this represents a relatively small proportion of forecast FY18 revenue, there is a risk that there will be delays in utilisation.</p>	<b>Section 5.1</b>

TOPIC	SUMMARY	MORE INFORMATION
<b>Renewal of lease agreements</b>	The Practices being acquired through the Acquisitions operate from leased premises. The leases have different legal terms, expiry dates and renewal options. There is a risk that, in connection with the Acquisitions or upon expiry, one or more of these leases may not be transferred or renewed on terms acceptable to the Group. If this were to occur it may result in the relevant Acquisition(s) not proceeding or the Group ceasing operations from the relevant Practice.	Section 5.1
<b>Limited trading history</b>	<p>While Directors and senior management have experience in business, management and the dental industry, the Group has limited financial and operating history.</p> <p>The Group's ability to achieve its objectives depends on the ability of the Group, the Board and senior management to successfully acquire and integrate the Practices, to implement the proposed business strategy and to respond in a timely and appropriate manner to any unforeseen circumstances.</p>	Section 5.1
<b>Financing risk</b>	The Group intends to rely on a combination of funding options including equity, contributions under the Joint Venture Partner Programme and the Finance Facility to fund its operations. An inability to attract funding or to drawdown or subsequently refinance the Finance Facility, or any increase in the cost of such funding, may adversely impact the performance and financial position of the Group.	Section 5.1
<b>Development and maintenance of reputation and brand</b>	<p>Following completion of the Acquisitions, it may take more time and resources than expected to establish the new Totally Smiles brand, which could adversely impact the Group.</p> <p>The Group's reputation and brand may be affected by factors within and outside of the Group's control, including actions of staff and dental practitioners, and the experience and actions of patients. Any issues or events in relation to individual practices could also have the potential to impact the reputation and brand of the Group, which may affect future growth and profitability.</p>	Section 5.1
<b>Competition</b>	The industry in which the Group will operate is highly competitive. The actions of existing and new competitors in the dental industry could, among other things, affect the establishment and growth of the Totally Smiles brand, result in a decline in the number of patients that visit the Practices and/or result in the Group experiencing lower than anticipated revenue and margins.	Section 5.1
<b>Regulatory/policy risk</b>	<p>There are a number of industry risk factors that may affect the future operation and performance of the Group that are outside its control, including regulation of the dental industry.</p> <p>Regulatory change may adversely impact the financial performance of the Group where it leads to increased compliance costs, decreased demand for dental services or a decrease in per patient revenues.</p>	Section 5.1

## 1.5. Other details about the Company

TOPIC	SUMMARY	MORE INFORMATION
<b>What is the capital structure of the Company?</b>	<p>The Company has 11,506,000 existing Shares on issue at the Prospectus Date.</p> <p>The Company also has unlisted Convertible Notes on issue with a face value of approximately \$5.3 million, which are convertible into Shares in the manner set out in the Convertible Note terms of issue.</p> <p>The Convertible Notes comprise the Tranche 1 Convertible Notes and the Tranche 2 Convertible Notes. Refer to Section 10.7 for a summary of the terms of the Convertible Notes.</p> <p>All of the Convertible Notes held by Noteholders will convert on the Offer Shares Allotment Date in the manner set out in Section 10.7.</p> <p>At Completion of the Offer it is expected that there will be 57,932,900 Shares on issue in the Company.</p> <p>It is expected that approximately 39.6% of the Shares on issue following Completion will be subject to escrow for periods of up to 24 months following Listing as described in Section 11.7.</p> <p>There are no other classes of securities currently on issue.</p>	<b>Sections 10 and 11</b>
<b>What is the Convertible Note Conversion?</b>	<p>As at the Prospectus Date there are 5,287,000 Convertible Notes on issue with a face value of \$5,287,000. Under the terms of issue, the Company was required to issue a notice to Noteholders in respect of the initial public offer. Upon receipt of this notice, Noteholders were deemed to have elected to convert their Convertible Notes into Shares on Completion of the Offer (<b>Conversion Shares</b>) with the conversion expected to take effect on the Offer Shares Allotment Date.</p> <p>There will be no Convertible Notes on issue after Listing.</p> <p>The Conversion Shares issued to Noteholders will be subject to mandatory and/or voluntary escrow arrangements described in Section 11.7.</p>	<b>Sections 10 and 11</b>
<b>What significant benefits and interests are payable to the Directors and other persons connected with the Offer?</b>	<p>Executive remuneration is described in Section 6.</p> <p>Non-Executive Directors will receive remuneration and fees on ordinary commercial terms as described in Section 6.</p> <p>Further details of the significant interests of key people, related party transactions and advisor and service provider fee entitlements are set out in Sections 6 and 11.</p> <p>Advisers and other service providers will receive fees for services on the terms set out in Section 11.9.</p>	<b>Sections 6 and 11</b>
<b>Who are the Company's substantial shareholders at the Prospectus Date and what interests will they have after the Offer?</b>	<p>Following Completion of the Offer, Mike Timoney (and his associated entities) will hold approximately 16.7% of the Shares on issue at Completion of the Offer. It is not expected any other Existing Shareholder will be a substantial holder of the Company following Completion of the Offer (being a Shareholder with a relevant interest in more than 5% of the Company's voting shares).</p>	<b>Section 7.8</b>

## 1.6. Directors and Key Management

TOPIC	SUMMARY	MORE INFORMATION																																							
Who are the directors of the Company?	<p>The Board comprises experienced directors based in Australia with a broad and diverse range of business experience.</p> <p>The Directors of the Company are:</p> <ul style="list-style-type: none"><li>» David Herlihy – Chairman and Independent Non-Executive Director;</li><li>» David Usasz – Deputy Chairman and Independent Non-Executive Director;</li><li>» Mike Timoney – Chief Executive Officer and Managing Director; and</li><li>» Tracy Penn – Deputy Chief Executive Officer and Executive Director.</li></ul> <p>The Company intends to identify and appoint a new independent non-executive director following Listing.</p> <p>Refer to Section 6 for further details regarding the background of the Directors.</p>	Section 6																																							
Who are the key senior executives of the Company?	<p>The executive team has strong focus on custom business solutions, employee engagement and professional development, aiming to deliver high quality patient care and enhance its businesses.</p> <p>The executive team is comprised of:</p> <ul style="list-style-type: none"><li>» Mike Timoney – Chief Executive Officer and Managing Director;</li><li>» Tracy Penn – Deputy Chief Executive Officer;</li><li>» Paul Innes – Chief Financial Officer;</li><li>» Neil Simpson – Chief Operating Officer; and</li><li>» Paul Johansen – Chief Information Officer.</li></ul> <p>Refer to Section 6 for further details regarding the background of the executive team.</p>	Sections 3 and 6																																							
What are the interests held by Directors and Senior Management in the Company?	<p>The following table sets out the relevant interests of Directors and Senior Management who hold a direct or indirect interest in the Company, both at the Prospectus Date and their expected interests upon Completion of the Offer. Directors and Senior Management may acquire additional Shares under the Offer.</p> <table><tr><th></th><th>CLASS OF SECURITY</th><th>NUMBER AS AT THE PROSPECTUS DATE</th><th>NUMBER AT COMPLETION OF THE OFFER</th></tr><tr><td rowspan="2">David Herlihy</td><td>Convertible Notes</td><td>60,000</td><td>–</td></tr><tr><td>Shares</td><td>225,000</td><td>487,000</td></tr><tr><td rowspan="2">David Usasz</td><td>Convertible Notes</td><td>240,000</td><td>–</td></tr><tr><td>Shares</td><td>50,000</td><td>1,212,000</td></tr><tr><td rowspan="2">Mike Timoney</td><td>Convertible Notes</td><td>15,000</td><td>–</td></tr><tr><td>Shares</td><td>9,659,000</td><td>9,677,000</td></tr><tr><td rowspan="2">Tracy Penn</td><td>Convertible Notes</td><td>60,000</td><td>–</td></tr><tr><td>Shares</td><td>150,000</td><td>412,000</td></tr><tr><td rowspan="2">Other Senior Management</td><td>Convertible Notes</td><td>–</td><td>–</td></tr><tr><td>Shares</td><td>306,000</td><td>306,000</td></tr></table>		CLASS OF SECURITY	NUMBER AS AT THE PROSPECTUS DATE	NUMBER AT COMPLETION OF THE OFFER	David Herlihy	Convertible Notes	60,000	–	Shares	225,000	487,000	David Usasz	Convertible Notes	240,000	–	Shares	50,000	1,212,000	Mike Timoney	Convertible Notes	15,000	–	Shares	9,659,000	9,677,000	Tracy Penn	Convertible Notes	60,000	–	Shares	150,000	412,000	Other Senior Management	Convertible Notes	–	–	Shares	306,000	306,000	Section 11.6
	CLASS OF SECURITY	NUMBER AS AT THE PROSPECTUS DATE	NUMBER AT COMPLETION OF THE OFFER																																						
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Other Senior Management	Convertible Notes	–	–																																						
	Shares	306,000	306,000																																						

## 1.7 About the Offer

TOPIC	SUMMARY	MORE INFORMATION
<b>What is the Offer?</b>	<p>The Offer is an initial public offer to acquire 35 million Shares in the Company at an issue price of \$1.00 per Share, to raise \$35 million.</p> <p>For details relating to the rights and liabilities of the Shares, refer to Section 11.5.</p>	<b>Sections 7 and 11.5</b>
<b>How is the Offer structured and who will be eligible to participate?</b>	<p>The Offer comprises:</p> <ul style="list-style-type: none"> <li>» the Dentist Participation Offer, which is being extended to Eligible Dental Partners up to a maximum amount of \$5 million;</li> <li>» the Broker Firm Offer, which is open to retail investors who have a registered address in Australia or New Zealand; and</li> <li>» the Institutional Offer, which consists of an invitation to bid for Shares made to Institutional Investors.</li> </ul> <p>Dentist Participation Offer Applicants may also apply for short-term, non-interest bearing loans for the Application Amount (<b>Interim Acquisition Loan</b>), repayable upon completion of the Acquisition Agreement to which the Dentist Participation Offer Applicant is a party (or the nominee of a party), or in any event one month after the Offer Shares Allotment Date.</p>	<b>Section 7</b>
<b>What is the minimum application size?</b>	<p>\$2,000 for 2,000 Offer Shares, with incremental multiples of 500 Offer Shares (i.e. incremental multiples of at least \$500).</p> <p>There is no maximum Application under the Dentist Participation Offer, Broker Firm Offer or the Institutional Offer.</p> <p>The Company reserves the right to scale back any Applications in the Dentist Participation Offer, Broker Firm Offer or Institutional Offer.</p> <p>The maximum number of Shares to be issued under the Dentist Participation Offer is 5 million Shares.</p>	<b>Section 7</b>
<b>How do I apply?</b>	<p>If you are an eligible investor, you may apply for Offer Shares under the Offer by completing the Application Form that forms part of, is attached to, or accompanies this Prospectus. To the extent permitted by law, an Application under the Offer is irrevocable.</p>	<b>Section 7.9</b>
<b>What do Applicants pay when applying under the Offer?</b>	<p>All Applicants under the Offer will pay an Issue Price of \$1.00 per Share.</p>	<b>Section 7</b>
<b>What is the Allocation Policy?</b>	<p>The basis of allocation of Offer Shares under the Offer will be determined by the Company and the Lead Manager and Underwriter.</p> <p>The Dentist Participation Offer is expected to close at 5.00 pm 6 April 2018. If the Dentist Participation Offer is not fully subscribed, any unsubscribed balance will then become available for allocation under the Broker Firm Offer and Institutional Offer.</p> <p>There is no assurance that any person will be allocated any Shares or the number of Shares for which they apply. The Company reserves the right in its absolute discretion to not issue Offer Shares to Applicants under the Offer and may reject any Application or allocate a lesser amount of Offer Shares than those applied for at its absolute discretion.</p>	<b>Section 7</b>
<b>When will I receive confirmation whether my Application has been successful?</b>	<p>The Company expects that holding statements confirming Applicants' allocations under the Offer will be sent to successful Applicants by standard post on or around 18 April 2018.</p>	<b>Section 7</b>

TOPIC	SUMMARY	MORE INFORMATION															
<b>When are the Shares expected to commence trading?</b>	<p>It is expected that trading of the Shares on the ASX will commence on or about 27 April 2018, subject to ASX confirmation.</p> <p>It is the responsibility of each Applicant to confirm their own holdings before trading on ASX, and any Applicant who sells their Shares before they receive an initial holding statement does so at its own risk.</p>	Section 7															
<b>Who is the Lead Manager and Underwriter of the Offer?</b>	Morgans Corporate Limited ACN 010 539 607.	Section 7															
<b>Is the Offer underwritten?</b>	<p>The Offer is fully underwritten by Morgans Corporate Limited.</p> <p>If the Company does not receive applications for the full amount of 35 million Shares under the Offer, the Lead Manager and Underwriter will subscribe for, or procure subscriptions for any shortfall.</p> <p>Refer to Section 10.1 for full details on the Underwriting Agreement.</p>	Sections 7 and 10.1															
<b>Is there any brokerage, commission or stamp duty payable by Applicants?</b>	No brokerage or stamp duty is payable by Applicants on the acquisition of Offer Shares.	Section 7															
<b>What will the capital structure of the Company be at Completion of the Offer?</b>	<p>On Completion of the Offer, the capital structure of the Company will be as set out below:</p> <table> <tr> <th>SHARES</th><th>SHARES HELD</th><th>PERCENTAGE HELD</th></tr> <tr> <td>Existing Shares</td><td>11,506,000 Shares</td><td>19.86%</td></tr> <tr> <td>Shares issued upon Convertible Note Conversion</td><td>11,426,900 Shares</td><td>19.72%</td></tr> <tr> <td>Shares issued under the Offer</td><td>35,000,000 Shares</td><td>60.42%</td></tr> <tr> <td><b>Total Shares on issue at Completion of the Offer</b></td><td><b>57,932,900 Shares</b></td><td><b>100%</b></td></tr> </table>	SHARES	SHARES HELD	PERCENTAGE HELD	Existing Shares	11,506,000 Shares	19.86%	Shares issued upon Convertible Note Conversion	11,426,900 Shares	19.72%	Shares issued under the Offer	35,000,000 Shares	60.42%	<b>Total Shares on issue at Completion of the Offer</b>	<b>57,932,900 Shares</b>	<b>100%</b>	Section 11
SHARES	SHARES HELD	PERCENTAGE HELD															
Existing Shares	11,506,000 Shares	19.86%															
Shares issued upon Convertible Note Conversion	11,426,900 Shares	19.72%															
Shares issued under the Offer	35,000,000 Shares	60.42%															
<b>Total Shares on issue at Completion of the Offer</b>	<b>57,932,900 Shares</b>	<b>100%</b>															
<b>Are there any escrow arrangements?</b>	<p>Yes. The Existing Shareholders and Noteholders are expected to enter into restriction deeds with the Company in relation to the Shares held by them at the Prospectus Date and Shares issued as part of Convertible Note Conversion, which collectively represent approximately 39.6% of the Shares on issue following Completion. The restrictions will apply for up to 24 months following Listing.</p> <p>Further details are provided in Section 11.7.</p>	Section 11.7															
<b>Can the Offer be withdrawn?</b>	<p>The Company reserves the right not to proceed with the Offer at any time before the Offer Share Allotment Date.</p> <p>If the Offer does not proceed, Application Monies will be refunded.</p> <p>No interest will be paid on any refunded Application Monies.</p>	Section 7															
<b>Can the Offer period be closed early or extended?</b>	<p>The Company reserves the right to close the Offer early, extend the Offer Closing Date or accept late Applications without notifying any recipients of this Prospectus or any Applicants. Any change to the Offer Closing Date (including if closed early or extended) will have a consequential effect on the date for the issue of the Shares.</p> <p>Investors who wish to submit an Application are encouraged to do so as soon as practicable after the Offer opens.</p>	Section 7.23															
<b>Is there a cooling-off period?</b>	No.	Not applicable															

TOPIC	SUMMARY	MORE INFORMATION
<b>Will the Company's Shares be listed?</b>	<p>The Company will apply within seven days of the Prospectus Date to be admitted to the Official List and will seek quotation of the Shares on the ASX.</p> <p>Completion of the Offer is conditional on the ASX approving this application. Approval for Listing is expected to be conditional upon Smiles Inclusive satisfying a number of ASX imposed pre-conditions, including the completion of a threshold proportion of Acquisition Agreements after the close of the Offer.</p> <p>If approval is not given within three months after such application is made (or any longer period permitted by law), the Offer will be withdrawn and all Application Monies received will be refunded without interest as soon as practical in accordance with the requirements of the Corporations Act.</p>	<b>Section 7.20</b>
<b>Have any ASX waivers been obtained or been relied on?</b>	Yes. Details of these waivers are provided in Section 11.12.	<b>Section 11.12</b>
<b>What are the tax implications of investing in the Shares?</b>	<p>The tax consequences for an investor of any investment in the Shares will depend upon the investor's particular circumstances. Applicants should obtain their own tax advice before deciding whether to invest.</p> <p>A summary of the general tax implications of participating in the Offer for Australian and New Zealand resident investors is set out in Section 9.</p>	<b>Sections 7.24 and 9</b>
<b>How can I obtain further information?</b>	<p>If you would like more information or have any questions relating to the Offer, please call the Offer Information Line on 1800 990 479 (within Australia) or +61 1800 990 479 (outside Australia) between 8.30am and 5.30pm AEST.</p> <p>If you are uncertain as to whether an investment in the Company is suitable for you, please contact your stockbroker, financial adviser, accountant, lawyer or other professional adviser.</p>	<b>Important notices</b>

SECTION 2

# Industry Overview



## 2.1. Australian dental industry

Published data indicates that the Australian dental industry in FY18 is expected to generate total revenue of over \$10 billion, provide over \$2.5 billion in wages and return profits of over \$2 billion.

This industry includes providing services in preventative oral health care, diagnostic services and treatment for patients in general dentistry, orthodontics, denture preparation and periodontics, as well as in other specialty areas of oral health.

The Australian dental workforce is reported to comprise around 22,000 professionals registered as dentists, prosthetists, dental hygienists and other oral health care specialists.

Unlike other health services, the dental services industry is predominantly privately funded, with costs generally being paid directly by patients with potential subsidy from private health insurance.

## 2.2. Market trends

In the five years through to FY18 industry revenue is reported to have risen by an annualised rate of over 3%, which factors in forecast growth of between 2% and 2.5% in FY18.

This growth in the dental services industry has been influenced by a number of factors including increases in expenditure by government and individuals and Australia's ageing and growing population.

The number of consumers opting to take up private health insurance has also contributed to industry growth, with appropriate extras cover reducing out of pocket expenses for patients.

## 2.3. Key statistics

Published data indicates that:

- » a significant proportion of the population do not visit a dentist every two years;
- » the lowest dentist attendance age group is those between 25 to 44 years of age;
- » people in the age range of 5 to 24 years of age generally attend the dentist with some regularity. Children to young adults make up a large portion of this category, with one contributing factor being the services provided in schools following the federal government's introduction of the Medicare Teen Dental Plan which has occurred in the last five years;
- » the frequency of dental visits is a major driver of overall dental health as well as a driver of total expenditure on dental services;
- » the dental industry has sensitivity to levels of household disposable income, which is projected to increase marginally in FY18; and
- » it is often the households with higher disposable income who can afford and take out private health insurance, reducing their out of pocket expenses for dental services where the policy contains appropriate cover. Conversely, lower disposable income can prompt households to defer non-essential dental work, thus affecting the industry.

## 2.4. Industry performance

The Australian dental services industry is reported to be in a growth phase of its economic cycle, with the industry's contribution to the overall economy forecast to be slightly above expected comparable real GDP growth for the 10 years through to 2022-2023, suggesting that the dental industry is outperforming the wider economy.

The growth within the industry as a whole has been contributed to by the following factors:

### 2.4.1. Demand from consumers with health insurance

Unlike most health services, dental services are generally not covered by Medicare.

The incidence of private health insurance with extras cover for dental services is therefore more relevant to the dental services industry, as patients with private health insurance have lower out of pocket costs and are more likely to visit the dentist.

During FY18, demand from health insurance is expected to increase.

### 2.4.2. Population

Population growth and increases in the average age of Australians positively influences the dental industry.

The younger population generally have less tooth decay and cavities, influenced in particular by greater awareness of dental health. The focus for this demographic is typically preventative work, while older adults who grew up with less dental health awareness are more likely to require extensive repair work. An increase in the median age of the population is expected to flow through and positively affect industry revenue.

## 2.5. Industry structure and outlook

### 2.5.1. Overview

There are reported to be over 7,000 dental practices in Australia with a relatively small number of large corporate operators in the industry spread across various states and territories.

Notwithstanding some new corporate operators entering the Australian dental industry, no Australian enterprise is presently estimated to have a market share of over 5%. The Australian dental industry remains fragmented with the majority of dental practices being small scale, independent businesses.

This industry structure results in more localised competition between dental practices.

The largest of the corporate groups is Bupa Dental Corporation (owned by BUPA Hi Holdings Pty Ltd, a foreign owned private company) with approximately 200 practices spread throughout Australia and New Zealand, representing less than 5% market share. Bupa Dental Corporation was formed in 2013 after a merger between Dental Corporation and Bupa.

Two of the other main corporate operators (Pacific Smiles Limited and 1300 Smiles Limited) in the industry are also listed on ASX.

### 2.5.2. Supply of dental practitioners

Growth in the number of dentists becoming registered in Australia to June 2017 was reported to be 2.9%, a rate slightly slower than the growth of the overall workforce.

Published data suggests that approximately 460 new dentists will be required to enter the Australian workforce each year to meet demand and attrition. This number has been exceeded every year since 2012.

The Directors believe that the supply will assist in the delivery of the Group's business objectives, with more dentists available to work in the Group's practices.

### 2.5.3. Industry outlook

Published data indicates that revenue for the dental services industry is projected to increase steadily over the next five years. A growing and ageing population, rising disposable incomes and greater numbers of consumers with private health insurance extras cover are projected to benefit the industry.

Employment in the Australian dental industry is projected to grow as more dental graduates finish tertiary education and enter the industry. The composition of the dental workforce is also facing changes, with higher numbers of female dentists and a growing preference for flexible working conditions.

Ownership changes are also forecast to occur as more dentists join corporate dental groups.

### 2.5.4. Government regulations

Federal, state and territory laws govern the practice of dentistry in Australia. The Australian Health Practitioner Regulation Agency (AHPRA) is the national agency responsible for the national registration and accreditation of dentists in Australia, as well as other types of healthcare professionals. AHPRA also established a national professional board for dentists, the Dental Board of Australia, to among other functions, register dental professionals and develop professional dental standards.

There are some government schemes that subsidise the cost of dental work, such as work performed in schools and public hospitals. There is however relatively limited access to government schemes for adults, with these subsidies generally restricted to the unemployed, elderly, disabled and single parents with health care cards.

Federal government subsidies of private health insurance indirectly support the industry.

### 2.5.5. Dental care spending – 2017 budget

The Australian dental industry is predominantly privately funded, however Australian government budget papers show an allocation of \$107.8 million over FY18 and again in FY19 to support the improved oral health of patients who rely on the public dental system. The federal government has also signalled that it is committed to finalising negotiations with the states and territories on a new national partnership agreement for additional adult public dental services.

SECTION 3

# Company Overview



### 3.1. Introduction to Smiles Inclusive

Smiles Inclusive is a dental services aggregator focused on acquiring quality dental practices in Australia.

Following completion of the Acquisitions and Listing, the Group will integrate the dental practices and operate them under the Totally Smiles brand.

Pursuant to the Acquisition Agreements, Totally Smiles has contracted to acquire 52 dental practices,<sup>9</sup> which are located across Queensland, New South Wales, Victoria, the Australian Capital Territory, South Australia and Western Australia. Further detail regarding the geographic spread of Practices is included in Section 3.5.

The key terms of the Acquisition Agreements are set out in Section 10.3. The Practices will be fully-operational following completion of the Acquisitions.

Planning for completion of the Acquisitions is well progressed and the Company intends to complete as many as possible in one line prior to Listing. ASX will require completion of a threshold level of Acquisitions prior to Listing occurring and the Company has also agreed with the Lead Manager and Underwriter that it must be satisfied with progress towards completing the Acquisitions (acting reasonably) prior to the Offer Shares being issued and allotted. Despite the Company's detailed planning, the volume of Acquisitions to be completed in a short time frame means that there could be a delay in completion of a small number of the Acquisitions as set out in the risks in Sections 1.4 and 5.1. The Directors are confident that should this occur, the Company would either complete the Acquisitions following quotation of its Shares or alternatively enter into and complete new acquisitions shortly thereafter.

Dental services performed from the Practices will include a range of general, family and specialist dental services.

The Group will provide dentists with fully-operational facilities including support staff, materials, marketing and administrative services. This business model, described in Section 3.2, distinguishes the provision of dental services from practice ownership and management, allowing dentists to increase the time spent treating patients.

The Group's growth strategy is to increase its share of the Australian dental market by:

- » optimising Practice operations, generating cost efficiencies through scale, increased purchasing power and improved practice management;
- » increasing revenue of acquired assets, including by improving chair utilisation, enhancing the patient experience and direct marketing initiatives;

- » investing in Practices, including equipment and technology upgrades and provision of expanded services; and
- » further acquisitions.

The Group will consider further acquisitions where a practice's financial and operating profile is suitable based on the Group's acquisition strategy. Refer to Section 3.7 for further information on the Group's growth strategies and initiatives.

### 3.2. Features of the Smiles Inclusive business model

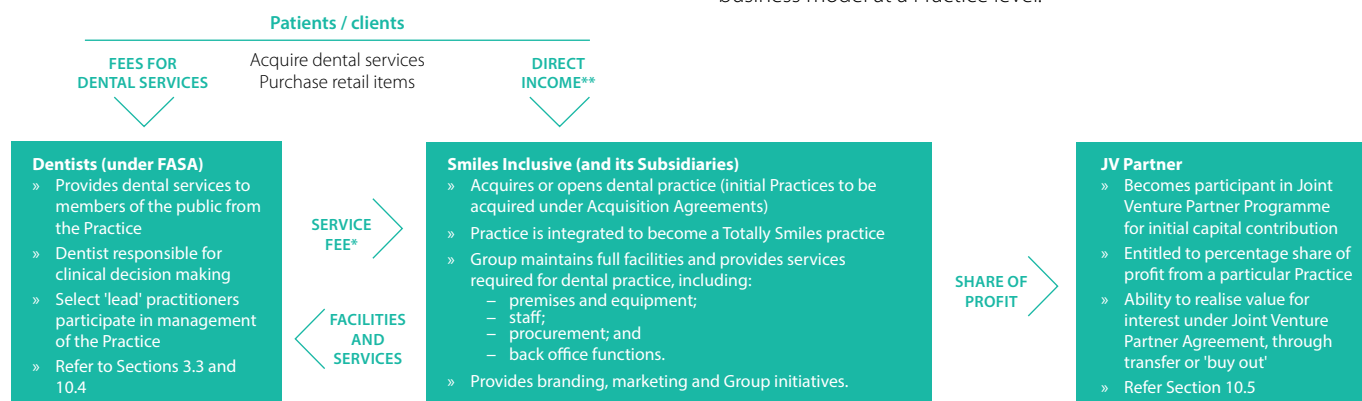
Under Smiles Inclusive's business model:<sup>10</sup>

- » **Ownership:** the Group owns the dental practices, with the initial Practices being acquired under the Acquisition Agreements;
- » **Joint Venture Partner Programme:** a JV Partner (typically the vendor of the Practice or its nominee) makes a capital contribution that will entitle it to share in the ongoing profit of the relevant Practice in accordance with the Joint Venture Partner Programme. Interests in the Joint Venture Partner Programme may be realised for value. Further details are included in Section 10.5;
- » **Facilities and services:** the Group will provide fully functioning dental practices, including support staff, consumables, marketing and administrative services, to contracted dentists under the terms of the FASA. Under the FASA, the Group will receive a service fee, generally calculated as a percentage of money banked from dental services performed by the relevant practitioner, after taking into account laboratory and other fees incurred. Further details of the FASA are included in Sections 3.3 and 10.4; and
- » **Dental services:** contracted dentists will generally provide dental services to members of the public. Money banked on account of these services, less the service fee payable to the Group, will be retained by the practitioner.

Service fees under the FASAs will be a significant source of revenue, however the Group will also earn direct dental services revenue (for example, where practitioners and service providers are employed by the Group) and have additional revenue streams including from direct retail sales.

The FASA and the Joint Venture Partner Programme have been structured to maintain alignment and incentivise productivity at a Practice level.

The below diagram summarises the key aspects of the Group's business model at a Practice level.



\* Service fee is generally calculated as a percentage of money banked from dental services performed by the relevant practitioner, after taking into account laboratory and other fees incurred.

\*\* Direct income may include (among other things) retail sales undertaken by the Group and income earned through employee practitioners.

9 Number of practices may not equate to the number of fixed premises. A single practice may have multiple outlets. Figure includes one mobile practice.

10 Based on the template model assuming completion of the Acquisitions. It is noted that Smiles Inclusive has agreed certain variances on a case by case basis.

### 3.3. Service offering to dentists

The Group will provide dentists who enter into FASAs with:

- » fully operational dental practices, including equipment, surgery, reception and waiting rooms;
- » experienced practice management and administrative staff, dental support staff and reception staff;
- » electronic practice management systems for booking services, maintaining patient records and invoicing;
- » HICAPS (health fund on the spot claiming);
- » centralised head office support and back-office functions, including compliance, administration and negotiation with private health fund insurers; and
- » marketing services, on a national and local level.

### 3.4. Key benefits of the Smiles Inclusive business model

The Group's business model offers different benefits to key stakeholders, including dental practitioners who enter into FASAs and participants in the Joint Venture Partner Programme.

Benefits provided to dental practitioners under the FASAs are expected to include:

- » support of professional management, administration and a range of head office functions;
- » enhanced capacity to deliver dental services and treat patients due to decreased practice management demands;
- » flexibility to determine hours of work, with money earned by practitioners linked to productivity;
- » increased patient appointments through local and national marketing initiatives using the Totally Smiles brand; and
- » access to modern, well-equipped facilities.

By choosing to participate in the Joint Venture Partner Programme, former owners of the Practices (or their nominees or transferees) can also benefit by receiving a share of the profits generated from a particular Practice. This is expected to help maintain alignment between practice management and the Group and incentivise productivity.

### 3.5. Geographic spread

Following completion of the Acquisitions and Listing, the Group expects to operate 52 dental practices in various locations across Australia,<sup>11</sup> including:

- » 22 practices in Queensland;
- » 10 practices in New South Wales;
- » 10 practices in Victoria;
- » 6 practices in Western Australia;
- » 3 practices in South Australia; and
- » 1 practice in the Australian Capital Territory.

Smiles Inclusive sees significant opportunities in all states and territories of Australia, and intends to undertake targeted expansion in accordance with its acquisition strategy (see further below at Section 3.7.1).

### 3.6. Integration

The Group has developed a detailed integration plan to ensure consistency in implementation of systems and operational processes, as well clear communication with staff and patients.

Technology and operational integration teams have been established for the integration process, to be managed by the Chief Operating Officer.

In preparation for integration and to identify Practices that may require additional support, the Group is conducting clinical and technology audits of all Practices.

The Group has developed a standard practice operating model which will provide the basis for transitioning all Practices to standardised systems and hardware. All Practices will be transitioned to a single practice management system. The practice management system selected by the Group is already in use by approximately 15 of the Practices, which will assist with the integration process. This system enables benchmarking on key performance indicators such as chair utilisation, appointment management and patient recall statistics.

The Group will also be establishing and integrating its back office systems (including, finance, payroll and human resources), together with associated policies and procedures. These systems, policies and procedures will facilitate reporting and monitoring of practice performance, which should enable management to identify and respond in a timely manner to issues arising at any particular practice.

Plans for supplier rationalisation and centralisation of purchasing through an online service portal have been established as part of the integration plan. The Group expects this will improve buying power and margins in respect of practice consumables, capital equipment (including dental chairs and imaging equipment), and maintenance functions.

Smiles Inclusive geographic footprint



<sup>11</sup> Number of practices may not equate to the number of fixed premises. A single practice may have multiple outlets. Figure includes one mobile practice.

To pilot elements of the integration plan, the Group has been working closely with the vendor of one Practice to develop a Totally Smiles concept practice. At this concept practice, the Group has trialled concepts, focussing on core elements of practice management and opportunities to optimise the patient experience. The Group's ability to deliver a smooth integration process is expected to be assisted by the continued involvement and economic interest of vendors and existing management in the Practice where there are Joint Venture Partner Agreements and/or FASAs. The Group also believes that the background and experience of the Directors and Senior Management will assist the integration to occur with minimum disruption to day to day practice operations.

### **3.7. Growth strategies and further initiatives**

#### **3.7.1. Acquisition model**

The Group intends to seek new practices and it will assess opportunities on a case by case basis with reference to its existing network of practices and strategic objectives. While the Group will consider opportunities in capital cities, there will also be continued focus on acquisitions in regional areas. Acquisition opportunities are preferred where there is a potential JV Partner that wishes to continue to share in the growth of their dental practice, with the support of a corporate aggregator. In accordance with the existing model, the Group would acquire the practice, with the JV Partner reinvesting under the Joint Venture Partner Programme.

#### **3.7.2. Procurement of supplies**

The Group proposes to develop a procurement process that generates efficiencies by encouraging purchasing of the 'right stock at the right time'. This is expected to be achieved by:

- » development of a core range of consumables based on withdrawal data;
- » tailoring a core 'shopping basket' for all practices from that core range; and
- » implementation of a centralised inventory management system.

The Group expects its processes will allow Practices to receive competitive pricing across the range, an expedited order to delivery turnaround time and a competitive edge in regard to new products available to the market.

The Group will encourage Practices to maximise purchases from preferred supply partners through a centralised inventory management system.

#### **3.7.3. Labour cost management initiatives**

The Group has reviewed key personnel and staffing structures of all Practices and will seek to optimise staffing structures to meet clinical and non-clinical requirements of the Practices.

Following completion of the Acquisitions and integration of the Practices, the processing of payroll will be a centralised function performed by the Group at head office. Labour costs will be monitored regularly by an assigned business manager.

#### **3.7.4. Patient engagement**

A key issue facing dental practices is patient retention and communication. Dental practices often have preventative care programs that are either non-existent or poorly managed. The Group will provide high-level communication training to the key support team members to improve their skills to increase treatment acceptance and patient retention.

The Group also intends to work with Practices to attract new patients through various marketing initiatives and campaigns (both locally and nationally), and to enhance communication and behavioural skills to improve patient retention. Key initiatives will include the Totally Smiles' 'New Patient Experience' process, that can be measured by patient retention and engagement in treatment as well as a call centre providing both inbound and outbound services.

The Group will be introducing tracked key performance indicators that encompass seven critical success factors:

1. new patients;
2. production;
3. treatment acceptance;
4. incomplete treatment;
5. failed appointments and cancellations;
6. marketing; and
7. debtors.

A report setting out these key performance indicators will be populated at a practice level and circulated weekly by Practices via a portal to head office. Results will be tracked and the Group will work directly with teams on areas identified for improvement.

Empty chair time directly impacts daily production, and this will also be monitored closely. This report will also help provide benchmarks from across the practices, whether it be per location or per practitioner, so benchmarks can then be established across the Group.

#### **3.7.5. Clinical Advisory Committee: clinical governance and compliance**

Smiles Inclusive has systems and processes in place to enable a strict monitoring of clinical governance and compliance. Smiles Inclusive will establish the Clinical Advisory Committee (CAC) comprising key executives and leading practitioners within the Group to review and report on clinical governance and compliance.

Smiles Inclusive strives to minimise its exposure to risk through a proactive and coordinated approach to clinical governance and compliance. Occupational health and safety awareness and training will be mandatory for all employees.

Smiles Inclusive will also obtain insurances necessary for the prudent operation of its business.

SECTION 4

# Financial Information



## 4.1. Introduction

### 4.1.1. Financial Information

The historical financial information (**Historical Financial Information**) and forecast financial information (**Forecast Financial Information**) of the Group (together, the **Financial Information**) contained in this Section has been prepared by the Directors.

The Financial Information has been provided by the Directors to potential investors to assist with their understanding of the historical financial performance, cash flows and historical position and the forecast financial performance and cash flows of the Group had it operated from 1 July 2016.

The Group operates on a financial year ending 30 June and a half year ending 31 December.

This Section 4 contains a summary of:

- » the pro forma Historical Financial Information (the **Pro Forma Historical Financial Information**) comprising:
  - the pro forma historical combined income statement for FY17 (**Pro Forma Historical Income Statement**);
  - the pro forma historical combined statement of cash flows before financing and taxation for FY17 (**Pro Forma Historical Cash Flows**); and
  - the pro forma historical combined statement of financial position as at 31 December 2017 (**Pro Forma Historical Balance Sheet**).
- » the statutory Historical Financial Information (the **Statutory Historical Financial Information**) comprising:
  - the historical consolidated income statement for the period from incorporation of the Company (15 August 2017) until 31 December 2017; and
  - the historical combined balance sheet as at 31 December 2017.
- » the Forecast Financial Information comprising:
  - the pro forma forecast consolidated income statement (**Pro Forma Forecast Income Statement**) and the pro forma forecast consolidated net cash flows (**Pro Forma Forecast Cash Flows**) for FY18 (together, the **Pro Forma Forecast Financial Information**); and
  - the statutory consolidated forecast income statement (the **Statutory Forecast Income Statement**) and the statutory consolidated forecast net cash flows (**Statutory Forecast Cash Flows**) for FY18 (together, the **Statutory Forecast Financial Information**).

The Historical Financial Information comprises the Pro Forma Historical Financial Information and the Statutory Historical Financial Information. The Forecast Financial Information comprises the Pro Forma Forecast Financial Information and the Statutory Forecast Financial Information.

The Pro Forma Historical Financial Information and Forecast Financial Information has been reviewed in accordance with the Australian Standard on Assurance Engagements ASAE 3450 *Assurance Engagements involving Fundraising and/or Prospective Financial Information* by KPMG Transaction Services whose Investigating Accountant's Report is contained in Section 8.

This Section 4 also includes:

- » a summary of the basis of preparation and presentation of the Financial Information (Section 4.2);
- » a summary of the key operating metrics impacting Smiles Inclusive's business model (Section 4.6)
- » a description of the pro forma adjustments to the Audited Practices, the Un-audited Practices and the Statutory Historical Financial Information and reconciliations (Table 4C);
- » a summary of the Group's indebtedness and debt facilities (Section 4.5.2);
- » management's discussion and analysis of the Pro Forma Historical Financial Information and Forecast Financial Information (Section 4.6);
- » the Directors' best estimate assumptions and general assumptions underlying the Forecast Financial Information (Section 4.7);
- » an analysis of the key sensitivities in respect of the Pro Forma Forecast Income Statement (Section 4.8); and
- » a summary of Smiles Inclusive's dividend policy (Section 4.10).

A description of Smiles Inclusive's significant accounting policies is summarised in Appendix A to this Prospectus.

The information in Section 4 should be read in conjunction with the risk factors set out in Section 5 and other information contained in this Prospectus. All amounts disclosed in the tables are presented in Australian dollars and, unless otherwise noted, are rounded to the nearest thousand dollars. The tables in Section 4 have not been amended to correct immaterial summation differences that may arise from this rounding convention.

## 4.2. Basis of preparation of the Financial Information

### 4.2.1. Overview

The Financial Information is intended to present potential investors with information to assist them in understanding the underlying historical financial performance, cash flows and financial position of the Group, together with the forecast financial performance and cash flows. The Directors are responsible for the preparation and presentation of the Financial Information.

Subject to Section 4.2.2 which sets out the basis of extraction of the Historical Financial Information, the Financial Information has been prepared and presented in accordance with the recognition and measurement principles of the Australian Accounting Standards, which are consistent with the International Financial Reporting Standards (**IFRS**) and interpretations issued by the International Accounting Standards Board. The Financial Information is presented in an abbreviated form insofar as it does not include all the disclosures, statements or comparative information as required by the Australian Accounting Standards applicable to annual financial reports prepared in accordance with the Corporations Act.

Smiles Inclusive's key accounting policies relevant to the Financial Information are set out in Appendix A to this Prospectus. In preparing the Financial Information, the accounting policies of Smiles Inclusive have been consistently applied.

Smiles Inclusive operates under one reportable segment in accordance with Australian Accounting Standard AASB 8 *Operating Segments*.

#### 4.2.2. Statutory Historical Financial Information

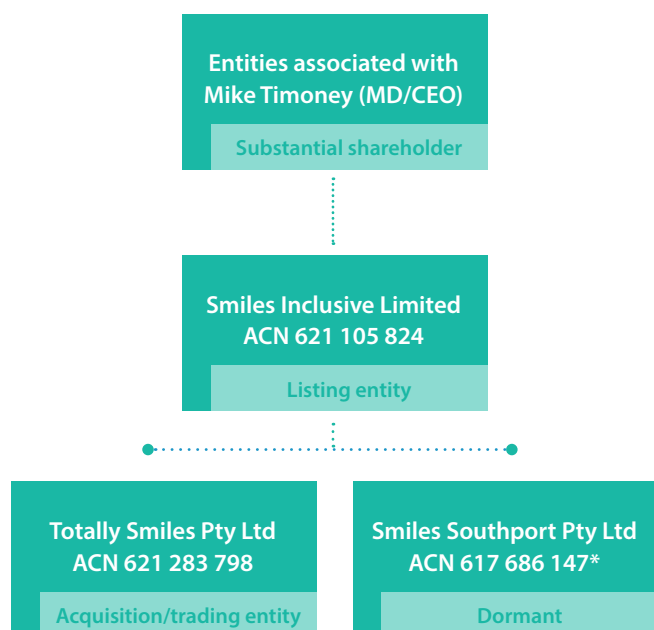
Smiles Inclusive was incorporated on 15 August 2017. Statutory Historical Financial Information reflects the period from incorporation to 31 December 2017.

Totally Smiles was incorporated on 24 August 2017 as a wholly owned subsidiary of Smiles Inclusive.

Smiles Southport became a wholly owned subsidiary of Smiles Inclusive on 26 February 2018.

No Practices had been acquired by the Group as at 31 December 2017.

A structure diagram is detailed below:



\* Share capital of Smiles Southport Pty Ltd was transferred to Smiles Inclusive Limited on 26 February 2018.

\*\* Totally Smiles has agreed to acquire the share capital of one company as part of the dental practice acquisitions. Subject to completion of the relevant Acquisition Agreement, Distinctive Dental Care Pty Ltd ACN 010 691 031 will become a wholly owned subsidiary of Totally Smiles.

The Statutory Historical Financial Information was extracted from the interim financial report of Smiles Inclusive covering the period from incorporation to 31 December 2017 (**Interim Financial Report**), which was reviewed by KPMG in accordance with Australian Auditing Standards. KPMG issued an unmodified review opinion on the Interim Financial Report.

#### 4.2.3. Treatment of acquisitions in the Pro Forma Historical Financial Information (other than the Pro Forma Historical Balance Sheet)

The Pro Forma Historical Financial Information comprises financial information for the Audited Practices and Un-audited Practices.

The **Audited Practices** represent in excess of 90% revenue and EBIT attributed to the Practices in the Pro Forma Historical Financial Information before pro forma adjustments. The remaining Practices are unaudited (**Un-audited Practices**).

The Pro Forma Historical Financial Information (other than the Pro Forma Historical Balance Sheet) is based on:

- » financial information extracted from the Special Purpose Financial Report (**Aggregated Audited Accounts**) of the Audited Practices for FY17, which was audited by KPMG in accordance with Australian Auditing Standards. The Aggregated Audited Accounts reflect the income and expenses and the assets and liabilities of the Audited Practices on a combined basis for FY17. KPMG issued an unqualified audit opinion on the Aggregated Audited Accounts;
- » management accounts for the Un-audited Practices for FY17 which were unaudited but have been reviewed by the Investigating Accountant; and
- » pro forma adjustments applied to the financial information for all Practices for FY17.

The Pro Forma Historical Financial Information (other than the Pro Forma Historical Balance Sheet) includes the operating results of all Practices as if they were acquired on 1 July 2016.

#### 4.2.4. Preparation of the Pro Forma Historical Balance Sheet

The Pro Forma Historical Balance Sheet, as set out in Section 4.5.1, is based on the balance sheet of Smiles Inclusive as at 31 December 2017, and includes pro forma adjustments to reflect:

- » the impact of the Offer, including the Offer costs and Convertible Note Conversion;
- » the Acquisitions; and
- » the operating and capital structures that will be in place following completion of the Acquisitions as if they had occurred or were in place as at 31 December 2017.

#### 4.2.5. Preparation of the Forecast Financial Information

The Forecast Financial Information has been prepared by Smiles Inclusive based on an assessment of present economic and operating conditions and on a number of assumptions, including the general assumptions and the Directors' best estimate assumptions set out in Section 4.7.

The Directors have prepared the Forecast Financial Information with due care and attention, and consider all best estimate assumptions when taken as a whole to be reasonable at the time of preparing this Prospectus. However, this information is not fact and investors are cautioned to not place undue reliance on the Forecast Financial Information. Investors should note that past results are not a guarantee of future performance.

This information is intended to assist investors in assessing the reasonableness and likelihood of the assumptions occurring, and is not intended to be a representation that the assumptions will occur. Investors should be aware that the timing of actual events and the magnitude of their impact might differ from that assumed in preparing the Forecast Financial Information, and that this may have a material positive or negative effect on Smiles Inclusive's actual financial performance or financial position. Investors are advised to review the assumptions set out in Sections 4.7.1 and 4.7.2 in conjunction with the sensitivity analysis set out in Section 4.8, the risk factors set out in Section 5 and other information set out in this Prospectus.

The Forecast Financial Information includes both the Pro Forma Forecast Financial Information and the Statutory Forecast Financial Information. The Pro Forma Forecast Financial Information assumes the Practices (the Audited Practices and Un-audited Practices) were acquired on 1 July 2016. The Statutory Forecast Financial Information includes the forecast results of the Audited Practices and Un-audited Practices for the full month of the month of expected completion of the Acquisitions (April 2018) to 30 June 2018.

Section 4.3.2 provides a reconciliation between the Aggregated Audited Accounts Income Statement and the Pro Forma Historical Income Statement of Smiles Inclusive for FY17, and Section 4.4.2 provides a reconciliation between the Historical Cash Flows and the Pro Forma Forecast Cash Flows for FY17 and the Forecast Cash Flows and the Pro Forma Forecast Cash Flows for FY18.

The basis of preparation and presentation of the Forecast Financial Information, to the extent relevant, is consistent with the basis of preparation and presentation of the Pro Forma Historical Financial Information.

#### 4.2.6. Acquisition accounting

Acquisition of the Practices have been accounted for using the acquisition method under AASB 3 *Business Combinations*.

AASB 3 requires that the identifiable assets and liabilities acquired (including intangible assets) are measured at their respective fair values at the acquisition date. The Group has performed an assessment of the fair values of the identifiable assets and liabilities acquired. For the purposes of the Pro Forma Historical Balance Sheet, the assets and liabilities have been recorded at their provisional fair values based on the Aggregated Audited Accounts and management information. Under the Australian Accounting Standards (AAS), Smiles Inclusive has up to 12 months from the date of acquisition to complete its acquisition accounting in accordance with AASB 3.

The increase in intangible asset values, of \$61.0 million, has been allocated to goodwill. This allocation is based on provisional estimates by Smiles Inclusive. These adjustments are reflected in the Pro Forma Historical Balance Sheet set out in Section 4.5.1.

The Financial Information presented in this Section 4 on a pro forma basis assumes that the Practices had always operated as a consolidated group with the exception of the Pro Forma Historical Balance Sheet which shows the impact of the Acquisitions as at 31 December 2017.

#### 4.2.7. Explanation of non-IFRS and other financial measures

Smiles Inclusive uses certain measures to manage and report on its business that are not recognised under AAS, or IFRS. These measures are referred to as non-IFRS financial measures. These non-IFRS financial measures do not have a prescribed definition under AAS or IFRS and therefore may not be directly comparable to similarly titled measures presented by other entities. These should not be construed as an indication of, or an alternative to, corresponding financial measures determined in accordance with AAS or IFRS. Although Smiles Inclusive believes these non-IFRS financial measures provide useful information to users in measuring the financial performance and condition of the business, investors are cautioned not to place undue reliance on any non-IFRS financial measures included in this Prospectus. In the disclosures in this Prospectus, Smiles Inclusive uses the following non-IFRS financial measures:

- » EBITDA: earnings before interest, tax, depreciation and amortisation;
- » EBIT: earnings before interest and tax;
- » NPAT: net profit after tax; and
- » Capital expenditure: includes investment in leasehold improvements and plant and equipment.

### 4.3. Pro Forma Historical Income Statement, Pro Forma Forecast Income Statement and Statutory Forecast Income Statement

#### 4.3.1. Pro Forma Historical Income Statement, Pro Forma Forecast Income Statement and Statutory Forecast Income Statement

The table below sets out the Pro Forma Historical Income Statement, Pro Forma Forecast Income Statement and Statutory Forecast Income Statement for FY17 and FY18.

**Table 4A – Pro Forma Historical Income Statement, Pro Forma Forecast Income Statement and Statutory Forecast Income Statement**

\$'000	NOTES	HISTORICAL PROFORMA FY17	FORECAST PROFORMA FY18	FORECAST STATUTORY FY18
Gross Practice revenue	1	51,948	57,641	14,410
Direct costs	2	(15,960)	(16,279)	(4,070)
<b>Net Practice revenue</b>		<b>35,988</b>	<b>41,362</b>	<b>10,340</b>
Consumables supplies expenses		(3,734)	(4,190)	(1,048)
Employee expenses		(11,440)	(12,316)	(3,079)
Marketing expenses		(587)	(598)	(150)
Occupancy expenses		(3,639)	(3,712)	(928)
Practice administration and other expenses		(2,094)	(2,518)	(630)
JV Partner EBIT share	3	(4,286)	(5,133)	(1,283)
Corporate overheads		(3,218)	(3,381)	(3,383)
<b>EBITDA</b>		<b>6,990</b>	<b>9,514</b>	<b>(161)</b>
Depreciation	4	(1,119)	(847)	(212)
<b>EBIT</b>		<b>5,871</b>	<b>8,667</b>	<b>(373)</b>
Net interest	5	(337)	(337)	(84)
<b>Profit before tax</b>		<b>5,534</b>	<b>8,330</b>	<b>(457)</b>
Income tax expense	6	(1,660)	(2,498)	137
<b>NPAT</b>		<b>3,874</b>	<b>5,832</b>	<b>(320)</b>
EBITDA growth on pcp			36.1%	
EBITDA margin % of gross Practice revenue		13.5%	16.5%	-1.1%
EBIT margin % of gross Practice revenue		11.3%	15.0%	-2.6%
NPAT margin % of gross Practice revenue		7.5%	10.1%	-2.2%

Notes:

1. **Gross Practice revenue** – represents revenue generated by Practices from providing dentistry services.
2. **Direct costs** – represents the service fees due to practitioners under the FASA net of laboratory costs.
3. **JV Partner EBIT share** – includes JV Partners' share of profits under the Joint Venture Partner Programme.
4. **Depreciation** – depreciation of property, plant and equipment as if the assets were held from 1 July 2016.
5. **Interest (net)** – the pro forma forecast interest (net) reflects the forecast expense on borrowing facilities at Completion, offset by interest income as if these facilities were held from 1 July 2016. The statutory interest expense reflects the expense for the period from 1 April 2018 to 30 June 2018.
6. **Income tax expense** – the income tax rate applicable to Smiles Inclusive which is approximately 30% for FY18 has been retrospectively applied to FY17 and is equivalent to the Australian corporate tax rate.

#### 4.3.2. Pro forma adjustments to the Aggregated Audited Accounts

The tables below set out the pro forma adjustments made to the Aggregated Audited gross practice revenue and NPAT respectively for FY17.

**Table 4B – Pro forma adjustments to the Aggregated Audited gross practice revenue**

\$'000	NOTES	REVENUE FY17
<b>Pro forma gross Practice revenue</b>		<b>51,948</b>
Pre acquisition trading – Un-audited	1	(3,788)
Other gross Practice revenue	2	(3,062)
<b>Aggregated Audited gross Practice revenue</b>		<b>45,097</b>

Notes:

- Pre-acquisition gross Practice revenue relating to the Un-audited Practices** – reflects the gross Practice revenue of the Un-audited Practices from 1 July 2016 (or when the respective business was acquired by the current owner) to 30 June 2017 and is based on management accounts.
- Other gross practice revenue** – reflects the estimated gross Practice revenue that would have been generated by the acquired Practices from 1 July 2016 to when they were acquired by the current owner (for those businesses that only operated under the current ownership for part of FY17) based on an annualisation of management accounts or extracted from the Aggregated Audited Accounts.

**Table 4C – Pro forma adjustments to Aggregated Audited NPAT**

\$'000	NOTES	NPAT FY17
<b>Pro forma</b>		<b>3,874</b>
Pre-acquisition gross Practice revenue - Un-audited	1	(1,225)
Other gross Practice revenue	2	(887)
Direct costs	3	6,986
Consumables supplies expenses	3	(335)
Employee expenses	3	(3,227)
Marketing expenses	3	(193)
Occupancy expenses	3	(186)
Practice administration and other expenses	3	(1,467)
Corporate overheads	4	2,253
JV Partner EBIT share	5	3,000
Depreciation		(56)
Financing costs	6	236
<b>Historical</b>		<b>8,773</b>

Notes:

- Pre-acquisition gross Practice revenue – Un-audited** – reflects the NPAT impact gross practice revenue of the Un-audited Practices from 1 July 2016 (or when the respective business was acquired by the current owner) to 30 June 2017 and is based on management accounts.
- Other gross Practice revenue** – reflects the NPAT impact of the acquired Practices' gross Practice revenue from 1 July 2017 to the dates on which they were acquired by the current owner (for those businesses that only operated under the current ownership for part of FY17) based on an annualisation of management accounts or extracted from the Aggregated Audited Accounts.
- Pre-Acquisition Costs** – reflects the NPAT impact of pre-acquisition costs of the Audited and Un-Audited Practices from 1 July 2016 (or when the respective business was acquired by the current owner) to 30 June 2017 and is based on an annualisation of management accounts or extracted from the Aggregated Audited Accounts.
- Corporate Overheads**: reflects the estimated NPAT impact of corporate overheads that would have been incurred had the acquisitions been completed on 1 July 2016.
- JV Partner EBIT share** – reflects the NPAT impact of the acquired Practices' JV Partner EBIT share from 1 July 2016 (or when the respective business was acquired by the current owner) to 30 June 2017 and is based the arrangements detailed in the Joint Venture Partner Agreements.
- Financing Costs** – reflects the NPAT impact of financing costs on the corporate debt facility at Completion, offset by interest income on cash held.

## 4.4. Pro Forma Historical Cash Flows, Pro Forma Forecast Cash Flows and Statutory Forecast Cash Flows

### 4.4.1. Overview

The table below sets out the Pro Forma Historical Cash Flows, Pro Forma Forecast Cash Flows and Statutory Forecast Cash Flows for FY17 and FY18.

**Table 4D – Pro Forma Historical Cash Flows, Pro Forma Forecast Cash Flows and Statutory Forecast Cash Flows**

\$'000	NOTES	PRO FORMA HISTORICAL FY17	PRO FORMA FORECAST FY18	STATUTORY FORECAST FY18
<b>EBITDA</b>		<b>6,990</b>	<b>9,514</b>	<b>(161)</b>
Net movement in working capital	1	1,609	339	657
<b>Operating cash flow before financing, taxation and capital expenditure</b>		<b>8,599</b>	<b>9,853</b>	<b>496</b>
Capital expenditure (net)	2	(1,033)	(600)	(600)
<b>Cash flow before financing and taxation</b>		<b>7,566</b>	<b>9,253</b>	<b>(104)</b>
Proceeds from Offer	3	–	–	35,000
Proceeds From debt drawdown	4	–	–	13,000
Acquisition payments	5	–	–	(43,831)
Capitalised Offer costs	6	–	–	(3,533)
Net proceeds from Convertible Notes	7	–	–	4,085
Corporate interest	8	–	(337)	(84)
<b>Net cash flow before taxation and dividends</b>		<b>7,566</b>	<b>8,916</b>	<b>4,533</b>
Income tax paid	9	–	(2,289)	–
<b>Net cash flow before dividends</b>		<b>7,566</b>	<b>6,627</b>	<b>4,533</b>
<b>Dividend</b>		<b>–</b>	<b>–</b>	<b>–</b>
<b>Net cash flow</b>		<b>7,566</b>	<b>6,627</b>	<b>4,533</b>
<b>EBITDA cash flow conversion %</b>	10	<b>108%</b>	<b>103%</b>	<b>155%</b>

Notes:

- Net movement in working capital** – comprises changes in receivables, payables and employee entitlements as if these assets and liabilities were held from 1 July 2016.
- Capital expenditure** – reflects fixed asset additions and leasehold improvements and is based on the management accounts or extracted from the Audited Aggregated Accounts.
- Proceeds from the Offer** – the expected proceeds from the issue of Offer Shares. The pre Offer capital raisings are included in the net proceeds from Convertible Notes.
- Proceeds from debt drawdown** – forecast drawdown of Finance Facility in accordance with the terms of the facilities.
- Acquisitions payments** – represents the cash outflow to acquire 52 dental practices.
- Capitalised Offer costs** – reflects the costs incurred in respect of the Offer that are partially offset against equity in the balance sheet, and partially recorded as an expense in the income statement.
- Net proceeds from Convertible Note issue** – the proceeds received on issue of Convertible Notes after costs.
- Corporate interest** – reflects the interest expense on loan facilities offset by interest income on cash in the balance sheet.
- Income tax paid** – represents Smiles Inclusive's forecast of taxes that will be paid by the Company between Completion and 30 June 2018 on a statutory basis. Pro forma taxes paid are assumed to be paid in line with quarterly instalments based on pro forma tax expense per the Pro Forma Forecast Income Statement.
- Cash flow conversion %** – calculated as the ratio of cash flow before financing and taxation to EBITDA.

#### 4.4.2. Pro forma adjustments to the Pro Forma Historical Cash Flows and Pro Forma Forecast Cash Flows

The table below sets out the pro forma adjustments made to the Pro Forma Historical Cash Flow for FY17 and Pro Forma Forecast Cash Flow for FY18.

**Table 4E – Pro forma adjustments to the historical and forecast cash flows**

\$'000	NOTE	HISTORICAL FY17	FORECAST FY18
<b>Pro forma cash flow before financing and taxation</b>		7,566	9,253
Pre-acquisition cash flows of Acquisitions		(10,784)	(9,673)
Other pro forma adjustments (cash impact)		2,769	(2)
<b>Historical and forecast cash flow before financing and taxation</b>		<b>(449)</b>	<b>(422)</b>

Notes:

1. **Pre Acquisitions cash flows of Acquisitions** – cash flows for the Acquisitions have been included on a pro forma basis from 1 July 2016.
2. **Other pro forma adjustments (cash impact)** – reflects the cash impact of pro forma adjustments including the increase in corporate costs expected to arise as a consequence of the Company becoming ASX listed. The costs principally relate to Board and governance (Non-Executive Directors, Audit and Remuneration Committee), additional legal and company secretarial costs as well as an increase in administrative resources and investor relations.

## 4.5. Financial position

### 4.5.1. Historical Balance Sheet and Pro Forma Historical Balance Sheet

The table below sets out the adjustments that have been made to the balance sheet of Smiles Inclusive as at 31 December 2017 to present a pro forma consolidated balance sheet for Smiles Inclusive as if Completion occurred on 31 December 2017. This table reflects a number of adjustments, including:

- » the combined financial position of Smiles Inclusive (which includes Smiles Southport);
- » the acquisitions of the Audited Practices and Un-audited Practices; and
- » the impact of the Offer.

**Table 4F – Historical Balance Sheet and Pro Forma Historical Balance Sheet as at 31 December 2017**

\$,000	BALANCE SHEET 31 DECEMBER 2017	PRE-OFFER CAPITAL RAISINGS	IMPACT OF THE OFFER	AUDITED AND UN-AUDITED ACQUISITIONS	DEBT RAISING	PRO FORMA 31 DECEMBER 2017
<b>Current Assets</b>						
Cash and cash equivalents	2,421	545	33,250	(43,327)	13,000	5,890
Other assets	888	–	(153)	(572)	–	163
<b>Total Current Assets</b>	<b>3,310</b>	<b>545</b>	<b>33,097</b>	<b>(43,898)</b>	<b>13,000</b>	<b>6,053</b>
<b>Non-Current Assets</b>						
Receivables	–	–	–	–	–	–
Property, plant & equipment	33	–	–	4,759	–	4,792
Goodwill	–	–	–	61,017	–	61,017
<b>Total Non-Current Assets</b>	<b>33</b>	<b>–</b>	<b>–</b>	<b>65,776</b>	<b>–</b>	<b>65,809</b>
<b>Total Assets</b>	<b>3,342</b>	<b>545</b>	<b>33,097</b>	<b>21,878</b>	<b>13,000</b>	<b>71,862</b>
<b>Current Liabilities</b>						
Payables	(67)	–	–	–	–	(67)
Borrowings	(4,732)	(545)	5,277	–	–	–
Provisions	(5)	–	–	(447)	–	(452)
Other liabilities	(18)	–	–	–	–	(18)
<b>Total Current Liabilities</b>	<b>(4,822)</b>	<b>(545)</b>	<b>5,277</b>	<b>(447)</b>	<b>–</b>	<b>(537)</b>
<b>Non-Current Liabilities</b>						
Borrowings	–	–	–	–	(13,000)	(13,000)
JV Partner contribution	–	–	–	(21,431)	–	(21,431)
<b>Total Non-Current Liabilities</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(21,431)</b>	<b>(13,000)</b>	<b>(34,431)</b>
<b>Total Liabilities</b>	<b>(4,822)</b>	<b>(545)</b>	<b>5,277</b>	<b>(21,878)</b>	<b>(13,000)</b>	<b>(34,968)</b>
<b>Net Assets</b>	<b>(1,479)</b>	<b>–</b>	<b>38,374</b>	<b>–</b>	<b>–</b>	<b>36,894</b>
Issued Capital	210	–	38,374	–	–	38,584
Retained earnings	(1,689)	–	–	–	–	(1,689)
<b>Total Equity</b>	<b>(1,479)</b>	<b>–</b>	<b>38,374</b>	<b>–</b>	<b>–</b>	<b>36,894</b>

#### 4.5.2. Indebtedness

The table below sets out the composition of Smiles Inclusive's indebtedness and pro forma indebtedness as at 31 December 2017.

**Table 4G – Summary of pro forma net debt**

\$'000	REVIEWED HISTORICAL 31-DEC-17	REVIEWED PRO FORMA 31-DEC-17
Financial liabilities (current)	(4,732)	–
Non-current financial liabilities		
Term loan	–	(13,000)
JV Partner contribution	–	(21,431)
<b>Total borrowings</b>	<b>(4,732)</b>	<b>(34,431)</b>
Less: cash and cash equivalents	2,421	5,890
<b>Total net (cash) / indebtedness</b>	<b>(2,311)</b>	<b>(28,541)</b>

Notes:

1. **Financial liabilities (current)** – represents Convertible Notes that convert to equity on Completion.
2. **Term loan** – represents a finance facility expected to be drawn-down on Completion to fund part of the purchase of the Practices.
3. **JV Partner contribution** – represents the Group's liability for JV Partners' contribution under the Joint Venture Partner Programme.

#### 4.5.3. Liquidity and capital sources

Following Completion, Smiles Inclusive's principal sources of funds will be cash flow from operations, cash held at Completion as described in Section 4.5.2 and undrawn funds under the Finance Facility.

Smiles Inclusive expects that the Group will have sufficient cash flow from operations to fund its operational requirements and business needs during the forecast period and will have sufficient working capital to carry out its stated objectives as set out in Section 3.

Smiles Inclusive's ability to generate sufficient cash depends on its future performance which, to a certain extent, is subject to a number of factors beyond its control including general economic, financial and competitive conditions and other risk factors described in Section 5. In the future, Smiles Inclusive may seek additional funding from a range of sources to diversify its funding base to reduce reliance on the bank finance market and to manage its exposure to interest rate risks on long term borrowings.

## 4.6. Management discussion and analysis of the Pro Forma Historical Financial Information

### 4.6.1 Key operating metrics

**Table 4H – Key operating metrics**

	HISTORICAL PRO FORMA FY17	FORECAST PRO FORMA FY18
Practices (No.)	52	52
JV Partners	46	46
Operating dental chairs (No.)	154	154
Gross practice revenue (\$m)	51.9	57.6

### 4.6.2. Key factors affecting Smiles Inclusive's financial performance

This Section 4.6 discusses the general factors which affected the Group's operating and relative financial performance in FY17 and which the Company expects may continue to affect the Group in the future.

The discussion of these general factors is intended to provide a brief summary only and does not detail all factors that have affected the Group's historical operating and financial performance, or everything that could have had an impact on its operating and financial performance in the future.

Unless otherwise stated, all financial information presented in this, and the related commentary is on a pro forma basis only.

#### Acquired Practices

The Acquisitions include the purchase of 6 Practices which are not subject to a Joint Venture Partner Agreement. It is the intention of the Group to identify appropriate JV Partners for these Practices. These Practices account for approximately 15% of the gross Practice revenue in the Pro Forma Forecast Income Statement for FY18.

#### Gross Practice revenue

The Group derives gross Practice revenue from a number of dental sources including a range of general, family and specialist dental services. In addition, the Group has additional revenue streams including from direct retail sales.

The key drivers of gross Practice revenue are patient volume and service price. The volume of patients treated reflects a range of factors including the availability of dental practitioners to undertake the service, the number of patients, and the ability to enhance the patient experience. The Group has a collaborative approach with its practitioners to the setting of prices for all services. The active management of the Group's services range, supported by brand education and marketing campaigns will be a positive driver of the Group's future revenue growth.

### Direct costs

The Group's direct costs include the cost of practitioner services due under the FASA and direct expenses such as laboratory expenses associated with patient treatments. It is noted that not all practitioners are remunerated by the FASA and there is a proportion of practitioners who will be directly employed by the Group. The Group manages the service expense of practitioners due under the FASA via individual negotiations with those practitioners. Laboratory fees are currently negotiated directly between the practitioners and the relevant service provider. The following factors can affect the net revenue:

- » Agreed practitioner rate mix – the rate paid to practitioners who are engaged under a FASA varies on an individual basis. The practitioners generate their services directly as result of the gross revenue generated (after adjusting for laboratory fees incurred). Accordingly, the direct costs associated with practitioner service fees may impact the net revenue of the Group dependent upon the work performed by each practitioner; and
- » Direct dental services revenue – in a number of practices the practitioners undertaking the service are employed directly by the Group and accordingly there are no direct costs associated with these services. Accordingly, the net revenue reported by the Group may vary dependent upon the mix between services provided directly and those provided under a FASA arrangement.

### Other operating costs

Other operating expenses primarily comprise employee expenses, practice consumables, occupancy costs and advertising and promotions costs. The Group has a relatively fixed cost base that provides it with operating leverage and allows it ability to grow earnings faster than revenue provided all regulatory and other administrative requirements are met.

Employee costs are the most significant operating expense of the business and include salaries, wages, commissions, superannuation, and other employment related costs of all staff. The Group's cost base also includes head office and corporate costs including the expense of the senior management team. The Group leases all its business premises and incurs rental expenses.

An adjustment has been made to the Pro Forma Historical Financial Information for public company costs and remuneration which the Group estimates it will incur as a listed company. These pro forma adjustments include share registry fees, Director remuneration, additional audit and legal costs as well as annual general meeting and annual report costs.

### Depreciation and amortisation

Leasehold improvements are amortised over the term of the lease or seven years, including any options. Other assets are depreciated over their useful life, typically seven years depending on the nature of the asset.

### Working capital

The Group defines working capital as third-party receivables and third-party payables. Given the nature of the services provided, the Group has a relatively predictable working capital cycle and the level of receivables and payables are mainly influenced by volume of patients treated. The Group has identified and will implement systems to ensure that receivables are collected, and payables are paid in accordance with agreed terms.

### Capital expenditure

The Groups capital expenditure has historically included:

- » fitout or refurbishment of leasehold property including office and surgery fitout and fittings; and
- » installation or upgrade of plant and equipment such as dental chairs, X-Ray machines and IT systems.

## 4.7. Forecast Financial Information

The basis of preparation for the Forecast Financial Information is detailed in Section 4.2. This Section 4.7 includes the Directors' best estimate assumptions specific to the Forecast Financial Information. In addition to these specific assumptions, the general assumptions adopted in preparing the Forecast Financial Information are detailed in Section 4.7.1.

The Forecast Financial Information is based upon various best estimate assumptions concerning future events, including those set out below. In preparing the Forecast Financial Information, the Group has undertaken an analysis of the Acquisitions and applied assumptions in order to forecast future assumptions for FY18.

The analysis of the Acquisition's historical performance included historical operational and financial information, taxation and accounting source records provided by the vendors for the years ended 30 June 2015, 30 June 2016 and 30 June 2017. In addition, management reports detailing the latest available FY18 management accounts were analysed by management of the practices to be acquired (**Vendor Financial Information**).

The Vendor Financial Information was useful in providing an understanding of the acquiree's business and context to the Forecast Financial Information assumptions.

#### 4.7.1. General assumptions

The following general assumptions are relevant to the Forecast Financial Information:

- » there are no material changes in the competitive and operating environment in which the Group operates;
- » there are no significant deviations from current market expectations of economic and market conditions under which the Group operates;
- » there are no material changes in government legislation, tax legislation, regulatory requirements or government policy that will have a material impact on the financial performance, cash flows, financial position, accounting policies, financial reporting or disclosures of the Group;
- » there are no changes in applicable AAS, IFRS, other mandatory professional reporting requirements or the Corporations Act which could have a material impact on the Group's reported financial performance or cash flows, financial position, accounting policies, financial reporting or disclosures;
- » there are no material employee relations disputes or other disturbances, contingent liabilities or legal claims that arise or that are settled to the detriment of the Group;
- » there are no material changes in key personnel, including key management personnel. It is also assumed that the Group will maintain its ability to recruit and retain the personnel required to support future growth;
- » there are no material acquisitions, disposals, restructurings or investments other than the Acquisitions;
- » there are no material changes to the Group's corporate and funding structure, excluding the impact of this Offer and the Finance Facility;
- » there are no significant disruptions to the continuity of operations of the Group or other material changes in the business;
- » there are no material amendments to any material contract, agreement or arrangement relating to the Group's business or intellectual property;
- » none of the risks listed in Section 5 has a material adverse impact on the operations of the Group; and
- » the Offer proceeds are received in accordance with the timetable set out in the key dates Section of this Prospectus.

#### 4.7.2. Specific assumptions

The Forecast Financial Information is based on various specific assumptions, of which the key assumptions are set out below. The assumptions below are a summary only and do not represent all factors that will affect Smiles Inclusive's forecast financial performance. This information is intended to assist investors in assessing the reasonableness and likelihood of the assumptions occurring, and is not intended to be a representation that the assumptions will occur.

- » Practice revenue for FY18 will be consistent with FY17 for those practices that were under current ownership for the full financial year;
- » for those Practices that were acquired by the current owner during FY17, annual revenue for FY18 will be consistent with the average monthly revenue for the period of ownership during FY17;
- » revenue is forecast to increase by 3.5% on FY17 revenue as a result of 2% CPI inflation and initiatives expected to be implemented by management to increase practice revenue, which are set out in this Prospectus;
- » the agreement with Bartercard is performed in accordance with its terms, and all Bartercard trade dollars earned during FY18 are fully utilised (refer Sections 5.1 and 10.6);
- » operating expenses will increase 2% on FY17 due to CPI inflation; and
- » costs relating to the Joint Venture Partner Programme will increase in line with profitability of the Practices that have Joint Venture Partner Agreements.

## 4.8. Sensitivity analysis

The Forecast Financial Information included in this Section 4 is based on a number of estimates and assumptions as described in Sections 4.7.1 and 4.7.2. These estimates and assumptions are subject to business, economic and competitive uncertainties and contingencies, many of which are beyond the control of Smiles Inclusive, the Directors and management of Smiles Inclusive. These estimates are also based on assumptions with respect to future business decisions, which are subject to change.

Investors should be aware that future events cannot be predicted with certainty and as a result, deviations from the figures forecast in this Prospectus are to be expected. To assist investors in assessing the impact of these assumptions on the forecasts, set out below is a summary of the sensitivity of the forecast FY18 pro forma NPAT to changes in a number of key assumptions.

The changes in the key assumptions set out in the sensitivity analysis are intended to provide a guide only and are not intended to be indicative of the complete range of variations that may be experienced. Sensitivity analysis is conducted independently of potentially interrelated effects resultant from a variance in the assumption. Variations in actual performance could exceed the ranges shown.

For the purposes of this analysis, each sensitivity factor is presented in terms of its impact on the forecast FY18 pro forma NPAT. This analysis is set out below.

**Table 4I – Sensitivity analysis**

<b>\$'000</b>	<b>IMPACT ON PRO FORMA FORECAST NPAT FOR FY18</b>
<b>SENSITIVITY</b>	
<b>Revenue</b>	
+/- 5% change in the growth rate of revenue	1,335
+/- 5% change in the direct costs	382
<b>Other operating costs</b>	
+/- 5% change in employee expenses	278
+/- 5 % change in consumables expense	99
+/- 5% change in occupancy costs	84
+/- 5% change in corporate overhead	118

## 4.9. Summary of significant accounting policies

Set out in Appendix A is a summary of the significant accounting policies adopted in preparing the Financial Information.

## 4.10. Dividend policy

Depending on available profits and the financial position of the Group, it is the current intention of the Company to pay dividends commencing in FY19.

The Board has adopted a dividend policy to distribute to its Shareholders funds surplus to the operating needs of the Group as determined by the Directors with a target dividend payout ratio in respect of each financial year of between 40% and 60% of NPAT but subject always to:

- » the solvency requirements of the Corporations Act;
- » any banking or other funding covenants by which the Group is bound from time to time;
- » the working capital requirements (including the cost of funding potential acquisitions);
- » the requirements of the Constitution;
- » any actual or forecast cash flows not reflected in the calculation of NPAT; and
- » such other matters as the Board may determine from time to time.

It is the current intention of the Board to pay interim dividends in respect of half years ending in December and final dividends in respect of full years ending in June each year. It is anticipated that interim dividends will be paid in March and final dividends will be paid in September following the relevant financial period end. It is expected that all future dividends will be franked to the maximum extent possible.

No assurances can be given by any person, including the Directors, about the payment of any dividend and the level of franking on any such dividend.

SECTION 5

# Risk Factors



## 5.0 Risk factors

Investing in the Offer Shares involves a high degree of risk. There are a number of risks that, either individually or in combination, may materially and adversely affect the future operating and financial performance of the Group and the value of the Shares.

This Section describes the risks which the Company currently believes to be the key risks associated with an investment in the Group. It does not purport to be an exhaustive list of every risk faced by the Group, now or in the future. Many of these risks, or the consequences of them, are outside the control of the Group. If one or more of these risks or a risk not specifically referred to in this Prospectus eventuates, then the future operating performance of the Group and the value of the Shares and of your investment may be significantly affected.

Prospective investors should read the whole of this Prospectus and consult with their professional advisors for legal, business, financial or tax advice in order to fully appreciate such matters and the manner in which the Group intends to operate before any decision is made to apply for Shares under this Prospectus.

The following summary, which is not exhaustive, represents some of the major risk factors that Applicants need to be aware of. These risks have been separated into:

- » risks specific to an investment in Smiles Inclusive; and
- » general risks relating to an investment in a listed company.

The selection of risks has been based on an assessment of a combination of the probability of the risk occurring, the ability to mitigate the risk and impact of the risk if it did occur. The assessment is based on the knowledge of the Company as at the Prospectus Date, but there is no guarantee or assurance that the importance of different risks will not change or other risks will not emerge.

Any of these risks, and any other risks that may emerge, may have a material adverse effect on the business and financial position and performance.

There can be no guarantee that the Company will deliver on its business strategy, or that the forecasts or any forward-looking statement contained in this Prospectus will be achieved or realised. Investors should note that past performance is not a reliable indicator of future performance.

Some of these risks may be mitigated by the Group's internal controls and processes, but many are outside the control of the Group, the Directors and management. An investment in Smiles Inclusive should be considered speculative.

You can do some things to reduce the impact of risk. Firstly, get professional advice suited to your investment objectives, financial situation and particular needs. Nothing in this Prospectus can replace or offer independent professional advice. Secondly, invest for at least the time frame and take such steps recommended by your professional adviser.

### 5.1 Risks specific to an investment in Smiles Inclusive

The operating results and profitability of the Group are sensitive to a number of factors. The Company should not be seen as a predictable, low risk investment.

The risks below should be considered in conjunction with the other information disclosed in this Prospectus.

RISK	DESCRIPTION OF RISK
<b>Acquisition risk</b>	<p>As discussed in Section 3, the Group will be undertaking certain Acquisitions. There are execution, due diligence and liability risks associated with the Acquisitions.</p> <p>The agreements in respect of the Acquisitions contain obligations on the parties and conditions which, if not complied with or satisfied, could affect the operation of the Practices post-Acquisition, or delay or prevent the Acquisitions from completing. The Company considers that the number and dispersion of Acquisitions, from unrelated vendors, assists to reduce risk that a material number of Acquisitions do not complete. However, the failure to satisfy conditions of the Acquisition Agreements, or a failure to complete or any delay in completing any Acquisition could adversely affect the Group's ability to deliver on its business strategy, and its future performance, including the ability for the forecasts or any forward-looking statement contained in this Prospectus to be achieved or realised.</p> <p>The Group has performed due diligence in respect of each of the Acquisitions and sought certain standard warranty and indemnity protections under the Acquisition Agreements. However, there is a risk that the due diligence investigations have not identified issues that would have been material to the decision by the Group to undertake an Acquisition, and on what terms (including price). The Group may also suffer loss or damage flowing from historical events and operations of the Practices acquired, which the Group may not be able to recover from the vendors under the terms of the Acquisition Agreements. Such issues could have a detrimental impact on the financial performance of the Group or its operations.</p> <p>There is also a risk that the expected benefits from the Acquisitions are not realised, for example, due to an inability to successfully integrate the acquired business.</p>

RISK	DESCRIPTION OF RISK
<b>Integration risk</b>	<p>The Group will seek to integrate the Practices following Listing. Key integration risks include higher than expected integration costs, potential disruption to management and existing operations of the Practices, lower than expected cost synergies, the loss of patients and impairment of business relationships (such as with staff and suppliers). Potential issues could also arise from any inability to maintain uniform standards, controls, procedures and policies. Such integration risks can detract from the expected benefits contemplated by the Group and affect financial performance and growth.</p> <p>If the Acquisitions and integration are not appropriately controlled (following Listing and in respect of the Group's future growth strategy), there is a risk that the process would impact service levels and the brand and reputation of the Group, which could affect patient retention and revenues.</p>
<b>Retention of dental practitioners</b>	<p>One of the Group's primary sources of earnings will be service fees paid by dental practitioners, calculated principally with reference to patient fees generated by the practitioner. The Group's performance will be influenced both by its ability to attract and retain, and by the efforts and actions of, suitable dental practitioners. Under the Group's business model, the Group has limited control over the actions of dental practitioners.</p> <p>Under the terms of the FASAs, dental practitioners can generally terminate the agreement without cause, subject to the provision of an agreed period of written notice to the Group.</p> <p>If a significant number of dental practitioners ceased using the Group's services or terminated their FASAs, and the Group were unable to adequately replace these practitioners, this could have a material detrimental impact on the Group's service fee revenue, its ability to deliver on its business strategy, and its future financial performance.</p>
<b>Key management personnel</b>	<p>An investment in the Group is in large an investment in its key management personnel. The loss of key members of management, a change in the senior management team or the failure to attract additional skilled individuals to key management roles, could have a material adverse effect on the Group's operations, including its relationships with practitioners and suppliers.</p>
<b>Joint Venture Partner Programme</b>	<p>The Group's model has been developed on the basis that JV Partners contribute capital to participate in the Joint Venture Partner Programme. If a significant number of JV Partners wished to exit the Joint Venture Partner Programme and the Group (or the exiting JV Partner) were unable to procure new JV Partners in respect of the relevant practice, or if JV Partners are unable to be procured in respect of future dental practice acquisitions, this will increase the Group's capital requirements and also its capital exposure to the relevant practices. This may also negatively affect the Group's financial position and growth, its ability to implement its proposed business strategy and model, and its alignment with practice management. This may also result in a review event under the Finance Facility (see further below regarding financing risk).</p>
<b>Technology risks</b>	<p>Following integration of the Practices, the Group intends to use consistent information communications technology and systems across its practices. The technology will be critical in managing employees, dental practitioners, patients and reporting requirements. Any significant interruption to these systems could adversely impact the Group's business, operating results and financial position.</p> <p>The use or take up by the Group's competitors of technology solutions could reduce the Group's points of differentiation and increase competition. This may put downward pressure on patient fees and adversely impact performance and financial position of the Group.</p> <p>The Group will also need to ensure that it has appropriate security measures and risk management systems in place to maintain the confidentiality and privacy of patient and personnel information. There is a risk that if such measures and systems are not adequate, then data (including sensitive information) may be compromised, which could cause financial and reputational damage or penalties where regulatory action is brought.</p>
<b>Payment structures</b>	<p>The Group has agreed to accept Bartercard trade dollars as payment for 'vouchers' issued by the Group for dental services. While the Group has identified opportunities to utilise the Bartercard trade dollars and this represents a relatively small proportion of forecast FY18 revenue, there is a risk that there will be delays in utilisation. There is no guarantee that the agreement with Bartercard will be renewed beyond its current term.</p>
<b>Renewal of lease agreements</b>	<p>The Practices being acquired through the Acquisitions operate from leased premises. The leases have different legal terms, expiry dates and renewal options. There is a risk that, in connection with the Acquisitions or upon expiry, one or more of these leases may not be transferred or renewed on terms acceptable to the Group. If this were to occur it may result in the relevant Acquisition(s) not proceeding or the Group ceasing operations from the relevant Practice, which may adversely affect the Group's operations, financial position and financial performance in the short term whilst the Group seeks alternative premises for that part of its business to operate from. This risk cannot reasonably be qualified or predicted with any certainty as at the Prospectus Date.</p>

RISK	DESCRIPTION OF RISK
<b>Limited trading history</b>	<p>While Directors and senior management have experience in business, management and the dental industry, the Group has limited financial and operating history. To assist investors, Financial Information is contained in Section 4 that incorporates underlying financial information of the Practices on a pro forma or statutory basis, however past performance is not a reliable indicator of future performance.</p> <p>The Group's ability to achieve its objectives depends on the ability of the Group, the Board and senior management to successfully acquire and integrate the Practices, to implement the proposed business strategy and to respond in a timely and appropriate manner to any unforeseen circumstances. Refer above for further detail on integration risk.</p>
<b>Financing risk</b>	<p>The Group intends to rely on a combination of funding options including equity, contributions under the Joint Venture Partner Programme and the Finance Facility to fund its operations.</p> <p>If the Group were required to concurrently complete a significant number of buy-outs under the Joint Venture Partner Programme (as described in Section 10.5), this could cause a spike in the Group's financing requirements and also result in a review event under the Finance Facility. A requirement to make early repayments, including as a result of a review event or an event or default, may impact the financial performance and position of the Group and its ability to operate in the ordinary course of business.</p> <p>Additionally, an inability to attract funding or to refinance the Finance Facility, or any increase in the cost of such funding, may also adversely impact performance and financial position of the Group.</p>
<b>Development and maintenance of reputation and brand</b>	<p>The Group's success may depend on the development, and maintenance of its reputation and brand. Following completion of the Acquisitions, it may take more time and resources than expected to establish the new Totally Smiles brand, which could adversely impact the Group's ability to earn revenue. The Group is taking measures to protect its proprietary rights, and presently has trademark applications that are in progress.</p> <p>The Group's reputation and brand may be affected by factors within and outside of the Group's control, including actions of staff and dental practitioners, and the experience and actions of patients.</p> <p>In particular, while dental practitioners are contractually responsible for the manner in which they provide dental services to patients, and are required to hold professional indemnity insurance, any clinical incidents could affect the reputation of, and result in potential liability for, the Group (including vicarious liability or where the Group or its employees have contributed to harm).</p> <p>Any issues or events in relation to individual practices could also have the potential to impact the reputation and brand of the Group, which may affect future growth and profitability.</p>
<b>Private healthcare insurance coverage and membership</b>	<p>Material reductions in private health insurance coverage, composition of policy coverage between dental services and other services and/or in membership rates could impact total expenditure in the dental industry. If private health insurance membership, or the insured amounts for dental services, reduced, then this could potentially impact demand for the Group's services and put downward pressure on fees charged to patients in the industry. This could negatively impact the Group's revenues and financial performance, as the service fee paid to it by dental practitioners is calculated principally with reference to patient fees generated by the practitioner.</p> <p>These effects could occur as a result of annual premium rounds.<sup>12</sup> Approval has been given for an average weighted increase in private health insurance premiums of 3.95% from 1 April 2018.</p>
<b>Competition</b>	<p>The industry in which the Group will operate is highly competitive. Competition within the industry, including from existing competitors with a developed brand and reputation, may affect the Group's ability to establish and maintain a market share for its Practices.</p> <p>The Group, and its revenue, is also affected by competition between individual practitioners. Competition may relate to factors such as price, responsiveness, range of services available and quality of service. Patients are generally able to change dental practitioners at will, including in response to competitive pressures.</p> <p>The actions of existing and new competitors in the dental industry could, among other things, affect the establishment and growth of the Totally Smiles brand, result in a decline in the number of patients that visit the Practices and/or result in the Group experiencing lower than anticipated revenue and earnings.</p>
<b>Regulatory/policy risk</b>	<p>There are a number of industry risk factors that may affect the future operation and performance of the Group that are outside its control, including regulation of the dental industry.</p> <p>Regulatory change may adversely impact the financial performance of the Group where it leads to increased compliance costs, decreased demand for dental services or a decrease in per patient revenues.</p>

<sup>12</sup> Premium changes take effect from 1 April each year. Refer to [www.health.gov.au](http://www.health.gov.au) for further information on annual premium changes.

RISK	DESCRIPTION OF RISK
<b>Future acquisitions</b>	<p>The Group's growth strategy includes the acquisition and integration of further dental practices. There is a risk that the Group may be unable to identify and/or execute suitable opportunities, and a failure to do so could have an adverse impact on the value of the Shares.</p> <p>Any further acquisitions will also expose the Group to the risks commonly associated with making business acquisitions.</p>
<b>Changes in economic conditions</b>	<p>The Group's revenues may be affected by changing economic conditions. Fees earned by dental practitioners (and, in turn, the Group) may reduce in the event of economic downturn, as patients may cut spending on dental services and, in particular, discretionary services such as teeth whitening and cosmetic treatments.</p>
<b>Changes to financial reporting standards</b>	<p>Smiles Inclusive's financial reports will be subject to compliance with the Australian Accounting Standards issued by AASB. The accounting treatment under the Australian Accounting Standards of transactions and events occurring in the operation of Smiles Inclusive's business, or changes to accounting standards, may have a material adverse effect on the performance reported in the Group's financial statements or in respect of other announcements to ASX.</p> <p>The AASB has issued new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods. The Group has decided not to early adopt these Accounting Standards. The following summarises those future requirements, and their impact on the Group.</p> <p><i>AASB 9 Financial Instruments (effective 30 June 2019)</i></p> <p>AASB 9 contains significant revisions to the classification and measurement of financial assets, reducing the number of categories and simplifying the measurement choices, including the removal of impairment testing of assets measured at fair value. The amortised cost model is available for debt assets meeting both business model and cash flow characteristics tests. All investments in equity instruments are to be measured at fair value.</p> <p>Impairment of assets will require entities to measure: (i) the 12 month expected credit losses (expected credit losses that result from those default events on the financial instrument that are possible within 12 months after the reporting date) or (ii) full lifetime expected credit losses (expected credit losses that result from all possible default events over the life of the financial instrument).</p> <p>The impact of the adoption of this Accounting Standard is yet to be assessed by the Group.</p> <p><i>AASB 15 Revenue from contracts with customers (effective 30 June 2019)</i></p> <p>AASB 15 introduces a five-step process for revenue recognition with the core principle of the new Standard being for entities to recognise revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the entity expects to be entitled in exchange for those goods or services. Accounting policy changes will arise in timing of revenue recognition, treatment of contracts costs and contracts which contain a financing element. AASB 15 will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements.</p> <p>The impact of the adoption of this Accounting Standard is yet to be assessed by the Group.</p> <p><i>AASB 16 Leases (effective 30 June 2020)</i></p> <p>AASB 16 will cause the majority of leases of an entity to be brought onto the statement of financial position. There are limited exceptions relating to short-term leases and low value assets which may remain off-balance sheet. The calculation of the lease liability will take into account appropriate discount rates, assumptions about lease term and increases in lease payments. A corresponding right to use asset will be recognised which will be amortised over the term of the lease. Rent expense will no longer be shown in, the income statement and the impact of the leases will be through amortisation and interest charges.</p> <p>Whilst the impact of AASB 16 has not yet been quantified, the entity currently has operating leases which it is anticipated will be brought onto the statement of financial position. Interest and amortisation expense will increase and rental expense (and thus EBITDA) will decrease.</p>

## 5.2. General risk factors applying to an investment in a listed entity

TYPE OF RISK	DESCRIPTION OF RISK
<b>Share market and liquidity</b>	<p>The market price of the Shares can rise and fall and may be subject to varied and unpredictable influences on the share market. The trading price of the Shares at any given time may be higher or lower than the price paid under the Offer. Further, you may be unable to sell or realise your investment because the market for Shares may be illiquid.</p> <p>Following Listing, approximately 39.6% of Shares (as set out in Section 11.7) will be subject to escrow, which may also impact on liquidity. Following release from escrow, these Shares will be able to be freely traded on ASX. A significant sale by formerly Escrowed Securityholders, or the perception that a sale may occur, could adversely impact the price of Shares.</p> <p>Share market conditions are affected by many factors, including:</p> <ul style="list-style-type: none"> <li>» general economic outlook;</li> <li>» interest rates and inflation rates;</li> <li>» currency fluctuations;</li> <li>» changes in investor sentiment towards equities or particular market sectors;</li> <li>» political instability;</li> <li>» short selling and other trading activities;</li> <li>» the demand for, and supply of, capital; and</li> <li>» force majeure events.</li> </ul>
<b>Financial market volatility</b>	<p>A fall in global or local equity markets or global or local bond markets may discourage investors from moving money into or out of equity markets. This may have a negative effect on the price at which the Shares trade on ASX.</p>
<b>General economic conditions</b>	<p>The Group may be negatively impacted by changes in the Australian or other international economies. In particular, there are risks from continued volatility in the US and Europe, international debt issues, impacts from currency and interest rate shifts and the potential for a contraction in the availability of debt or capital.</p> <p>These macro-economic factors may impact negatively through reduced future revenues, reduced demand for Smiles Inclusive's services, increased costs, foreign exchange losses, impacts of government responses to macro-economic issues and impacts on equity markets. These factors are beyond the control of the Group and the impact cannot be predicted.</p>
<b>Dividends</b>	<p>Smiles Inclusive expects to pay dividends in the future. The ability of the Company to pay dividends will depend on the level of available liquidity taking into account future expected cash requirements of the Group. In addition, many of the factors that will affect Smiles Inclusive's ability to pay dividends and the timing of those dividends may be outside the control of the Company and its Directors. The Directors cannot give any assurance regarding the payment of dividends in the future.</p>
<b>Franking of dividends</b>	<p>There is no guarantee that the Company will have sufficient franking credits in the future to fully frank dividends or that the franking system will not be varied or abolished.</p> <p>The value and availability of franking credits to a Shareholder will depend on their particular tax circumstances. Shareholders should be aware that the ability to use franking credits, as a tax offset or to claim a refund after the end of the income year will depend on the individual tax position of each Shareholder.</p>
<b>Regulatory risk</b>	<p>The Group is subject to a range of regulatory controls imposed by government (federal and state) and regulatory authorities (for example, ASX and ASIC). The relevant regulatory regimes are complex and are subject to change over time, depending on changes in the laws and the policies of the governments and regulatory authorities.</p> <p>The Group is exposed to: the risk of changes to applicable laws and/or the interpretation of existing laws, which may have a negative effect on the Group; or the risks associated with non-compliance with these laws (including reporting or other legal obligations). Non-compliance may result in financial penalties being levied against the Group.</p>

TYPE OF RISK	DESCRIPTION OF RISK
<b>Shareholder dilution</b>	In the future, the Company may elect to issue Shares or other securities. While the Company will be subject to the constraints of the ASX Listing Rules regarding the issue of Shares or other securities, Shareholders may be diluted as a result of such issues of Shares or other securities.
<b>Changes in taxation laws and policies</b>	<p>Tax laws are in a continual state of change which may affect the Company and its Shareholders.</p> <p>There may be tax implications arising from ownership of the Shares, the receipt of franked and unfranked dividends (if any) from the Company, receiving returns of capital and the disposal of the Shares.</p> <p>Changes to tax laws may adversely affect the Group's financial performance and/or the returns achieved by investors. Dividends paid by the Company to certain investors may not be recognised as frankable by the ATO.</p> <p>The Group is not responsible for either taxation implications or penalties incurred by investors. You should carefully consider these tax implications and obtain advice from an accountant or other professional tax adviser in relation to the application of the tax legislation to your investment in the Company.</p>
<b>Other</b>	<p>There are a range of other general risks, which may impact on Smiles Inclusive's business or an investment in the Shares, which include but are not limited to:</p> <ul style="list-style-type: none"> <li>» industrial action impacting the business directly or indirectly; and</li> <li>» government policies generally (in addition to taxation noted above) including in relation to climate change.</li> </ul>

SECTION 6

# Key people, interests and benefits



## 6.1. Board composition

The business and affairs of the Group are managed directly by the Board. In particular, the Board:

- » establishes the long-term goals of the Group and strategic plans to achieve those goals;
- » manages risk by ensuring that the Group has implemented adequate systems of internal controls together with appropriate monitoring of compliance activities; and
- » works with management to create shareholder value.

The Board is composed of experienced executives, with a broad and diverse range of business experience. The composition of the Board is set out below.



**David Herlihy – Chairman and independent Non-Executive Director**

David has had a distinguished executive career including a number of senior roles at Capel Court Corporation Limited.

In his capacity as chairman and director of various entities, he has overseen a broad range of matters including governance, funding, acquisitions and strategy.

He has previously acted as a director of Godfrey Hirst Australia and various Paul Ramsay Group entities. He has also been deputy chairman of Craig Mostyn Holdings and chairman of the State Transit Authority of NSW and Sydney Ferries.

His ASX experience includes acting as chairman of Mosaic Oil NL, Pro-Pac Packaging Ltd and Fraser Range Holdings Ltd.

David holds a Bachelor of Arts (UNSW) and is a Fellow of the Australian Institute of Company Directors.

David will be Chairman of the Remuneration and Nomination Committee and a member of the Audit and Risk Committee.



**David Usasz – Deputy Chairman and Independent Non-Executive Director**

David has over 40 years' experience in business in Australia and Hong Kong, including over 20 years as a partner of PwC (and its predecessor organisations). He has been involved in tax, mergers and acquisition advice, and corporate advisory consultancy specialising in corporate reorganisations. He is currently Non-Executive Chairman of Peacefield Group and the Australian representative for the Fengate Canadian Investment Group for some of its Australian investments.

In the past four years, David has held the position of Chairman of ASX-listed entities, Cromwell Property Group, GARDA Diversified Property Fund and GARDA Capital Group. David was also a Non-Executive Director of Queensland Investment Corporation (QIC), the Queensland Government's wholly owned funds management business.

David holds a Bachelor of Commerce from the University of Queensland and is a Fellow of the Institute of Chartered Accountants.

David will be Chairman of the Audit and Risk Committee and a member of the Remuneration and Nomination Committee, roles he has previously held in other ASX-listed entities and QIC.



**Michael Timoney – Chief Executive Officer and Managing Director**

Mike is the Chief Executive Officer and Managing Director of Smiles Inclusive and has substantial experience building dental groups.

Mike began in the dental industry by founding Totally Teeth on the Gold Coast in 2005 which experienced significant growth before being sold in 2008.

In 2007, Mike co – founded Dental Partners (renamed Maven Dental Group by the new owners), an owner and operator of dental practices across Australia. Mike sold his shares in Dental Partners to Abano Healthcare (NZX-listed company) in July 2012 and served as Chief Executive Officer until January 2013, at which time Dental Partners had a portfolio of over 65 dental practices, an annualised revenue of nearly \$100 million, an enterprise value of \$150 million and over 700 staff.

Mike was an Ernst & Young Entrepreneur of the Year Finalist in 2011 (Queensland) and is a current member of the Australian Institute of Company Directors.



**Tracy Penn – Deputy Chief Executive Officer and Executive Director**

Tracy has over 30 years of practice management experience in the dental industry and related fields.

She has worked as a practice development specialist for Dental Partners, developed and operated the Oasis Academy and The Discovery Program (supporting dental professionals in understanding their businesses through a more focused approach) and is a co-founder and managing director of Best Practice Management Group.

Tracy has a Diploma in Practice Management with the Financial Management Research Centre and a Behavioural Dental Science Diploma with ProSynergy.

Tracy will be the Chair of the Clinical Advisory Committee. She will also be a member the Audit and Risk Committee and the Remuneration and Nomination Committee.

## 6.2. Management team



### **Paul Innes – Chief Financial Officer and Company Secretary**

Paul has broad experience working for large corporates and publicly listed companies across a range of disciplines, including financial and commercial management, capital investments, tax, treasury, shared services and management information systems.

Paul has previously worked for PwC, Flight Centre Travel Group Limited, Aveo Limited, Cleanaway Limited and most recently with Queensland Urban Utilities.

Paul holds a Bachelor of Business from the Queensland University of Technology and is a member of Chartered Accountants Australia and New Zealand.



### **Neil Simpson – Chief Operating Officer**

Neil is a senior executive with over 25 years of operational, sales and merchandise experience developed across multiple channels of retail, wholesale and distribution. Neil has held leadership positions at Metcash Trading, Grace Worldwide (Australia) and McDonalds.

Neil has experience developing and managing retail brands and buying groups across different industry sectors.



### **Paul Johansen – Chief Information Officer**

Paul has over 20 years' executive management experience in the healthcare, fast moving consumer goods and information technology sectors in Australia and New Zealand. He was previously the Queensland General Manager for 13SICK (National Home Doctor Service) and General Manager for ASX-listed company, Integral Diagnostics.

## 6.3. Remuneration and interests

Refer to Section 11.6 for details of the remuneration and interests of, and the indemnity, access and insurance arrangements in place for Directors and officers and the remuneration of certain members of key management personnel.

## 6.4. The Board and Corporate Governance

The Board is concerned to ensure that the Group is properly managed to protect and enhance Shareholder interests and that the Company, its Directors and officers operate in an appropriate governance environment. The Board is responsible for the overall governance of the Company.

Issues of substance affecting the Company are considered by the Board with advice from external advisors as required. Each Director must declare all actual or potential conflicts of interest. Any issue concerning a Director's ability to properly act as Director will be discussed at a Board meeting as soon as practicable, and a Director may not participate in discussions or resolutions pertaining to any matter in which the Director has a material personal interest.

### 6.4.1. Governance policies

The governance policies set out in this Section 6.4.1 have been adopted by the Board and will be made available on the Group's website prior to its admission to the Official List.

GOVERNANCE POLICY	SUMMARY
<b>Board charter</b>	The board charter formalises the functions and responsibilities of the Board (including the process for evaluating the performance of the Board and its committees). The Board is responsible for the financial and operating policies of the Company and has authority over the day to day management of the Company including various responsibilities which have been set out in the board charter.
<b>Code of conduct</b>	The code of conduct addresses matters relevant to the Directors' legal and ethical obligations to its stakeholders. This policy outlines its requirements with respect to relationships, compliance with laws and ethics, conflicts of interest, confidentiality, use of the Company's assets and competition.
<b>Securities trading policy</b>	The securities trading policy sets out the Company's policy with regard to trading in the Company's securities. This policy applies to all Directors and their associates. The policy sets out the general prohibition on insider trading, restrictions on trading and required notification of proposed trading in the Company's securities.

## GOVERNANCE POLICY

## SUMMARY

<b>Diversity policy</b>	<p>The diversity policy sets out the Company's policy with regard to its commitment to complying with the diversity recommendations published by ASX by establishing measurable objectives for achieving gender diversity, promoting diversity among consultants and the Board and keeping Shareholders informed of the Company's progress towards implementing and achieving its diversity objectives.</p>
<b>Shareholder Communications policy</b>	<p>The shareholder communications policy has been adopted with a view to ensuring that the Company complies with the requirements of the ASX Listing Rules. This policy highlights: the requirements for immediate notification; the procedure for disclosing the information; those responsible for disclosing the information; and policy review details.</p> <p>The policy also outlines responsibilities for shareholder communications including: reports issued to shareholders; ASX announcements; annual general meetings; maintenance of the Company website; requests for information; and review of shareholder communications.</p>
<b>Continuous disclosure policy</b>	<p>The continuous disclosure policy has been adopted with a view to ensuring that the Company complies with the requirements of the ASX Listing Rules. The policy highlights the requirements for immediate notification; the procedure for disclosing the information; those responsible for disclosing the information; and policy review details.</p>
<b>Risk management policy</b>	<p>This policy is designed to assist the Company to identify, monitor and manage the risks affecting the Company's business.</p>
<b>Audit and risk committee charter</b>	<p>The Board is committed to a transparent system for auditing and reporting the Group's financial performance. The Board has established an audit and risk Committee whose principal functions are to:</p> <ul style="list-style-type: none"><li>» assist the Board and ensure that appropriate accounting policies and internal controls are established and followed;</li><li>» assist the Board to produce accurate financial statements in compliance with all applicable legal requirements and accounting standards; and</li><li>» ensure the efficient and effective management of business risks.</li></ul> <p>The Company has established a system of risk oversight and management. The Company's senior management maintains a risk register and this is reviewed at each meeting of the audit and risk committee.</p> <p>The audit and risk committee charter outlines: the composition of the audit and risk committee; its authority and responsibilities; meeting requirements; reporting procedures; and oversight of the risk management system.</p> <p>As at the Prospectus Date, David Herlihy, David Usasz and Tracy Penn are members of the Company's audit and risk committee, and David Usasz is appointed as the chair.</p>
<b>Nomination and remuneration committee charter</b>	<p>The nomination and remuneration committee's role is to:</p> <ul style="list-style-type: none"><li>» assist the Board and make recommendations to it about the appointment of new directors of the Company (both executive and non-executive); and</li><li>» advise on remuneration and issues relevant to remuneration policies and practices, including for directors and senior management.</li></ul> <p>The nomination and remuneration committee charter outlines the composition of the committee; its responsibilities (including in relation to the selection of and making recommendations about new Board candidates and ongoing responsibilities for Board member performance reviews, assessments and remuneration policies) and its meeting requirements.</p> <p>As at the Prospectus Date, David Herlihy, David Usasz and Tracy Penn are members of the Company's nomination and remuneration committee, and David Herlihy is appointed as the chair.</p>
<b>Whistleblower policy</b>	<p>The Company's whistleblower policy establishes a framework for the reporting of illegal, unacceptable, unethical or undesirable behaviour or conduct to nominated officers, including protections to be afforded to whistleblowers by the Board.</p>

### 6.4.2. Best practice commitment

The Company is committed to achieving and maintaining the highest standards of conduct and has implemented initiatives (as set out in this Section 6) to achieve this objective. The Company's corporate governance policies are intended to institutionalise good corporate governance and build a culture of best practice both in the Company's own internal practices and in its dealings with others.

The Company has considered the ASX Corporate Governance Principles to determine an appropriate system of control and accountability to best fit its business and operations commensurate with these guidelines. The Board will consider on an ongoing basis its corporate governance procedures and whether they are sufficient given the Company's nature of operations and size and will seek to follow these recommendations where possible.

As required under the ASX Listing Rules, where the Company determines it would be inappropriate to follow the principles because of its circumstances, the Company will provide reasons for not doing so in its annual report.

As at the Prospectus Date, the Board does not anticipate that it will depart from the recommendations in the ASX Corporate Governance Principles, other than as set out below.

RECOMMENDATION	COMMENT
<b>2.2 – Board skills matrix</b>	The Board has departed from Recommendation 2.2 as it has not adopted a board skills matrix setting out the mix of the skills and diversity that the Board currently has or is looking to achieve. The Board has been structured to compose experienced executives with a broad and diverse range of business experience and has appointed the Nomination and Remuneration Committee to make recommendations to the Board to ensure the most appropriate mix of skills, expertise and experience to effectively govern the Company. Although the Board Charter provides for the use of a board skills matrix to identify any gaps in the skills, qualifications, diversity and experience of the Directors of the Board, the Board does not consider it is necessary to develop a board skills matrix at this time. The experience and skills of each Director is disclosed in this Prospectus
<b>2.4 – Majority of Board should be independent</b>	The Board has departed from Recommendation 2.4 by having a Board which is only half comprised of independent directors. The Board does not consider the departure to be materially detrimental to the Company as it has considered the Board's independence and concluded that the non-executive Directors (David Herlihy and David Usasz) bring objective and unbiased judgement to the Board's deliberations and that the executive Directors (Mike Timoney and Tracy Penn) provide a deep understanding the Group's business and the dental industry. The Company intends to identify and appoint a new independent non-executive director following Listing.
<b>3.1 – Code of conduct</b>	<p>The Board has adopted a code of conduct in relation to legal and ethical obligations of Directors regarding their position within the Company, however this does not apply to employees more generally.</p> <p>The Board has adopted a whistle-blower policy which will apply to all persons engaged in the Group's business, establishing a framework for the reporting of illegal, unacceptable, unethical or undesirable behaviour or conduct.</p> <p>The Board will adopt an appropriate code of conduct extending to all employees if required at the relevant time.</p>
<b>4.1 – Audit committee should be comprised of all non-executive directors</b>	The Board has departed from Recommendation 4.1 by establishing an Audit and Risk Committee which is not comprised entirely of non-executive directors. The Board believes that the current members of the committee are the most appropriate to achieve its objectives. For this reason, the Board does not consider the departure to be materially detrimental to the Company.

### 6.4.3. Company secretary

The Company Secretary is responsible for ensuring that Board procedures and policies are followed and provides advice to the Board including on matters involving corporate governance and the ASX Listing Rules. All Directors have unfettered access to the advice and services of the Company Secretary. As at the Prospectus Date, Paul Innes is the Company Secretary.

## 6.5. Independence

Having regard to the factors set out in the ASX Corporate Governance Principles:

- » David Herlihy and David Usasz are considered to be independent Directors, free from any business or any other relationship that could materially interfere with, or reasonably be perceived to interfere with the independent exercise of the Directors' judgement and each is able to fulfil the role of an independent director for the purposes of the ASX Corporate Governance Principles. Whilst David Herlihy and David Usasz (personally or through entities they control) are Noteholders and Shareholders, they will not be considered 'substantial holders' of the Company on Completion of the Offer, and will be free from any business or any other relationship that could

materially interfere with, or reasonably be perceived to interfere with, the independent exercise of their judgement.

- » Mike Timoney and Tracy Penn are not currently considered independent given their respective employment by the Company in executive roles.

The Board does not consist of a majority of independent Directors. The Board acknowledges the recommendation in the ASX Corporate Governance Principles that a majority of the Board should be independent non-executive directors. Nevertheless, the Board believes that each non-executive Director brings objective and unbiased judgement to the Board's deliberations and that each of the executive Directors make invaluable contributions to the Company through their deep understanding of the Group's business objectives and the dental industry. The Company intends to identify and appoint a new independent non-executive director following Listing.

## 6.6. Independent professional advice

To fulfil their duties and responsibilities as Directors, each Director (with the prior approval of the Chairman) may seek independent legal or other professional advice about any aspect of the Company's operations. The Chairman's approval may not be unreasonably withheld or delayed. The cost of the advice is borne by the Company.

SECTION 7

# Details of the Offer



## 7.1. The Offer

The Offer comprises a capital raising of \$35 million by way of issue of 35 million Offer Shares at \$1.00 per Share.

The Offer Shares will rank equally in all respects with all other Shares issued by the Company. The rights and liabilities attaching to the Shares are set out in Section 11.5.

The Offer is made on the terms, and is subject to the conditions, set out in this Prospectus. The Offer is fully underwritten by the Lead Manager and Underwriter.

## 7.2. Structure of the Offer

The Offer comprises:

- » the Dentist Participation Offer, which is being extended to Eligible Dental Partners up to a maximum amount of \$5 million;
- » the Broker Firm Offer, which is open to retail investors who have a registered address in Australia or New Zealand; and
- » the Institutional Offer, which consists of an invitation to bid for Shares made to Institutional Investors.

Dentist Participation Offer Applicants may also apply for short-term, non-interest bearing loans for the Application Amount (Interim Acquisition Loan), repayable upon completion of the Acquisition Agreement to which the Dentist Participation Offer Applicant is a party (or the nominee of a party), or in any event one month after the Offer Shares Allotment Date.

The Offer Shares will be issued to successful Applicants on the Offer Share Allotment Date.

The Company reserves the right in its absolute discretion to issue no Offer Shares to Applicants under the Offer. All Applicants under the Offer must have an eligible residential address in Australia or New Zealand.

## 7.3. Opening and closing dates

The proposed opening date for acceptance of the Offer will be 21 March 2018 or such later date as may be prescribed by ASIC.

The Dentist Participation Offer is expected to remain open until 5.00pm 6 April 2018.

The Broker Firm Offer and the Institutional Offer are expected to remain open until 5.00 pm 11 April 2018.

The Directors reserve the right to open and close the Offer at any other date and time, without prior notice.

No Shares will be issued or transferred on the basis of this Prospectus later than 13 months after the Prospectus Date.

## 7.4. Purpose of the Offer

The Company is seeking to raise funds and list on ASX to:

- » complete the Acquisitions, to create its initial portfolio of Practices;
- » gain access to capital markets to facilitate future acquisitions;
- » realise the benefits of a public profile associated with being a listed entity; and
- » provide a liquid market for the Shares.

## 7.5. Source and use of funds

The Offer is expected to raise \$35 million. The table below sets out a summary of the anticipated use of seed funding, the proceeds of the Offer and funds under the Finance Facility.

SOURCE OF FUNDS	\$ MILLIONS
Funds raised through Convertible Notes	5.3
Issue of Offer Shares	35
Funds available under Finance Facility	36
<b>Total</b>	<b>76.3</b>

### USE OF PROCEEDS

Fund the Acquisitions (net of capital contributions from vendors and others to participate in the Joint Venture Partner Program)	44.5
Upfront costs under Finance Facility	0.2
Initial integration of Practices	1.3
Pay costs of the Offer	3.3
<b>Total</b>	<b>49.3</b>
Funds available for working capital and future acquisitions	27.0

## 7.6. Potential effect of the fundraising on the future of the Company

The Directors believe that on Listing, the Company will have sufficient working capital to carry out its stated business objectives as set out in Section 3.

## 7.7. Shareholding structure

The details of the ownership of Shares immediately prior to and on Completion of the Offer are set out below.

SHARES	SHARES HELD ON THE PROSPECTUS DATE	SHARES HELD ON COMPLETION OF THE OFFER	PERCENTAGE HELD ON COMPLETION OF THE OFFER
Existing Shares	11,506,000 Shares	11,506,000 Shares	19.86%
Shares issued upon Convertible Note Conversion	–	11,426,900 Shares	19.72%
Shares issued under the Offer	–	35,000,000 Shares	60.42%
<b>Total</b>	<b>11,506,000 Shares</b>	<b>57,932,900 Shares</b>	<b>100%</b>

## 7.8. Control implications of the Offer

The Directors do not expect any Shareholder will control (as defined by section 50AA of the Corporations Act) Smiles Inclusive on Completion.

However, Mike Timoney (and his associated entities) will hold a shareholding of approximately 16.7% on Completion. These shareholding entities will be in a position to vote the combined shareholdings in order to exercise a degree of influence over all matters that require approval by Shareholders, including the election and removal of Directors and approval of significant corporate transactions (unless prevented from voting under the Corporations Act or the ASX Listing Rules).

## 7.9. How to apply

In order to apply for Offer Shares under the Offer, please complete the Application Form that forms part of, is attached to, or accompanies this Prospectus. The Application Form must be completed in accordance with its accompanying instructions.

Once completed, please lodge your Application Form and Application Monies in accordance with the instructions on the Application Form by the Offer Closing Date.

If you have received an invitation to participate from your Broker and wish to apply for Shares under the Broker Firm Offer please refer to Section 7.11 below.

By making an Application, you declare that you were given access to this Prospectus (or any supplementary or replacement prospectus), together with an Application Form. The Corporations Act prohibits any person from passing an Application Form to another person unless it is included in, or accompanied by, a hard copy of this Prospectus or the complete and unaltered electronic version of this Prospectus.

Applications must be for a minimum of 2,000 Offer Shares.

Applications in excess of the minimum number of Offer Shares must be in multiples of 500 Offer Shares.

There is no maximum amount that may be applied for under the Dentist Participation Offer, the Broker Offer or the Institutional Offer.

The Company reserves the right to aggregate any Applications under the Offer which it believes may be multiple Applications from the same person.

## 7.10. Dentist Participation Offer

The Dentist Participation Offer is being extended to Eligible Dental Partners.

5 million Shares (\$5 million) will be made available to Eligible Dental Partners under the Dentist Participation Offer. If Eligible Dental Partners do not take up the entire allocation under the Dentist Participation Offer, any unallocated Shares will become available for allocation under the Institutional Offer or the Broker Firm Offer.

Under the Dentist Participation Offer, Dentist Participation Offer Applicants may also apply for short-term, non-interest bearing loans for the Application Amount (**Interim Acquisition Loan**), repayable upon completion of the Acquisition Agreement to which the Dentist Participation Offer Applicant is a party (or the nominee of a party) (**relevant Acquisition Agreement**). The amount of the Interim Acquisition Loan will be set-off against the purchase price under relevant Acquisition Agreement, and in any event is repayable one month after the Offer Shares Allotment Date.

If you are a Dentist Participation Offer Applicant, you must complete the Dentist Participation Offer Application Form and pay the relevant Application Monies in accordance with the instructions on the Dentist Participation Offer Application Form.

## 7.11. Broker Firm Offer

If your Broker has offered you a firm allocation of Shares, your application and payment procedures will differ from those described above in two respects:

- » your payment of your Application Money must be made to the Broker; and
- » your completed Application Form and payment of your Application Money must be delivered or made to the Broker directly (not to the Share Registry).

If Applicants have received a firm allocation of Shares they must lodge their Application Form and Application Money with the relevant Broker in accordance with the relevant Broker's directions in order to receive their firm allocation. Your Broker will act as your agent in submitting your Application.

The Company, the Share Registry and the Lead Manager and Underwriter take no responsibility for any acts or omissions by your Broker in connection with your Application, Application Form or Application Money.

Your Broker should explain this procedure to you in further detail. If you have a firm allocation of Shares and are in any doubt about what action to take, you should immediately contact the Broker who has made you the firm offer.

## 7.12. Institutional Offer

The Institutional Offer consists of an invitation prior to or after the Prospectus date to certain institutional investors to apply for Shares under this Prospectus. Application procedures for Institutional Investors have been, or will be, advised to the Institutional Investors by the Lead Manager and Underwriter.

### **7.13. Fees payable to the Lead Manager and Underwriter**

The Offer is fully underwritten by Morgans Corporate Limited. If the Company does not receive applications for the full amount of 35 million Shares under the Offer, the Lead Manager and Underwriter will subscribe for, or procure subscriptions for, any shortfall. The Company and the Lead Manager and Underwriter have entered into an Underwriting Agreement with respect to the Offer, details of which are set out in Section 10.1.

The Company has agreed to pay a fee to the Lead Manager and Underwriter equal to 5% of the gross proceeds of the Offer (exclusive of GST) in connection with its role as Lead Manager and Underwriter (Underwriting Fee).

The Underwriting Fee will be payable to Morgans Corporate Limited on the Offer Settlement Date.

The terms of the Underwriting Agreement are summarised more fully in Section 10.1.

### **7.14. Escrow arrangements**

The Escrowed Securityholders will be entering into mandatory or voluntary escrow arrangements, details of which are set out in Section 11.7.

### **7.15. Brokerage, commission and stamp duty**

You do not have to pay brokerage, commission or stamp duty if you acquire Shares under the Offer. Fees are payable by the Company in relation to the Offer to the Lead Manager and Underwriter and other advisers, details of which are set out in Sections 7.13 and 11.10.

### **7.16. Allocation policy and confirmation**

The basis of allocation of Offer Shares under the Offer will be determined by the Company and the Lead Manager and Underwriter.

If the Dentist Participation Offer is not fully subscribed at its Offer Closing Date, any unsubscribed balance will then become available for allocation under the Broker Firm Offer and Institutional Offer.

There is no assurance that any person will be allocated any Shares or the number of Shares for which they apply. It is intended that all Shares will be allocated via a Broker Firm Offer.

The Company reserves the right in its absolute discretion to not issue Offer Shares to Applicants under the Offer and may reject any Application or allocate a lesser amount of Offer Shares than those applied for at its absolute discretion.

Applicants under the Offer will be able to call the Offer Information Line on 1800 990 479 (within Australia) or +61 1800 990 479 (outside Australia) between 8.30am and 5.30pm AEST, from 18 April 2018 to confirm their allocation.

Holding statements confirming Applicants' allocations under the Offer are expected to be sent to successful Applicants on or around 18 April 2018.

### **7.17. Application Monies**

All Application Monies will be held by the Company on trust in a separate account until the Offer Shares are issued to successful Applicants.

Application Monies will be refunded in Australian dollars to the extent that an Application is rejected or scaled back, or the Offer is withdrawn. No interest will be paid on refunded amounts. The Company will retain any interest earned on Application Monies.

### **7.18. Allotment or transfer**

The allotment or transfer of the Shares offered by this Prospectus will take place as soon as possible following the closing date.

If the Directors believe the Application does not comply with applicable laws or regulations, they reserve the right to allot the Shares in full for any Application or to allot any lesser number or to reject any Application.

The Offer Share Allotment Date is expected to be 17 April 2018.

Trading of the Offer Shares on ASX is expected to commence on 27 April 2018 on a normal T + 2 settlement basis.

If you sell your Offer Shares before receiving an initial holding statement, you do so at your own risk, even if you have obtained details of your holding from your Broker or the Offer Information Line on 1800 990 479 (within Australia) or +61 1800 990 479 (outside Australia) between 8.30am and 5.30pm AEST.

### **7.19. Valid application forms**

An Application Form may only be distributed with, attached to or accompany a complete and unaltered copy of this Prospectus. An application Form is an irrevocable acceptance of the Offer.

By completing and lodging an Application Form received with this Prospectus, you as the Applicant represent and warrant that you have personally received a complete and unaltered copy of this Prospectus prior to completing the Application Form.

The Company will not accept a completed Application Form if we have reason to believe you as the Applicant have not received a complete copy of the Prospectus or we have reason to believe that the Application Form has been altered or tampered with in any way.

If an Application Form is not completed correctly, or if the accompanying payment of the Application Money is for the wrong amount, the Company may still treat it as a valid Application. The Directors' decision whether to treat the Application as valid and how to construe, amend or complete the Application Form is final. However, an Applicant will not be treated as having applied for more Shares than is indicated by the sum of the cheque for the Application Money.

## 7.20. ASX listing

No later than seven days after the Prospectus Date, the Company will apply to ASX for admission to the Official List and for its Shares to be granted official quotation by ASX. The Company is not currently seeking a listing of its Shares on any financial market other than ASX.

Completion of the Offer is conditional on the ASX approving this application. Approval for Listing is expected to be conditional upon Smiles Inclusive satisfying a number of ASX imposed pre-conditions, including the completion of a threshold proportion of Acquisition Agreements after the close of the Offer.

If quotation does not occur within three months after such application is made (or any longer period permitted by law), the Offer will be withdrawn and all Application Monies received will be refunded without interest as soon as practical in accordance with the requirements of the Corporations Act.

The fact that ASX may admit the Company to the Official List and grant official quotation of the Shares is not to be taken in any way as an indication of the merits of the Company or the Offer Shares offered for subscription under the Offer. ASX takes no responsibility for the contents of this Prospectus. Normal settlement trading in the Shares, if quotation is granted, will commence as soon as practicable after the issue of holding statements to successful Applicants.

It is the responsibility of Applicants to determine their allocation prior to trading in the Shares. Applicants who sell Shares before they receive confirmation of their allotment will do so at their own risk.

If ASX does not grant permission for the Shares to be quoted within three months after the Prospectus Date, the Shares will not be issued and all Application Monies will be refunded (without interest) as soon as practicable.

## 7.21. ASX clearing house electronic sub-register system

The Company will apply to participate in CHESS, in accordance with the ASX Listing Rules and the ASX Settlement Rules. CHESS is an automated transfer and settlement system for transactions in securities quoted on ASX under which transfers are effected in an electronic form.

When the Shares become CHESS approved securities, holdings will be registered in one of two sub-registers, an electronic CHESS sub-register or an issuer sponsored sub-register. A CHESS participant, or a person sponsored by a CHESS participant, will have their Shares registered on the CHESS sub-register. All other Shares will be registered on the issuer sponsored sub-register.

Applicants will be sent an initial holding statement following allotment that details the number of Shares that have been issued or transferred to them under the Offer. This holding statement will also provide details HIN or, where applicable, the SRN of issuer sponsored holders. Shareholders will need to quote their HIN or SRN, as applicable, in all dealings with a stockbroker or the Share Registry.

## 7.22. Foreign selling restrictions

The Company has not taken any action to register or qualify the Prospectus or otherwise to permit a public offering of the Shares in any jurisdiction outside of Australia or New Zealand.

This Prospectus does not constitute an offer or invitation in any place in which, or to any person to whom, it would not be lawful to make such an offer or invitation. The distribution of this Prospectus in jurisdictions outside Australia or New Zealand may be restricted by law. Persons who come into possession of this Prospectus who are not in Australia or New Zealand should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities law.

By making an Application, you warrant and represent that:

- » you are an Australian or New Zealand citizen or resident, are located in Australia or New Zealand at the time of the Application and are not acting for the account or benefit of any person in the United States or any other foreign person; and
- » you will not offer or sell the Shares in the United States or in any other jurisdiction outside Australia or to a United States person, except in transactions exempt from registration under the US Securities Act, and in compliance with all applicable laws in the jurisdiction.

## 7.23. Discretion under the Offer

The Company reserves the right not to proceed with the Offer at any time before the Offer Share Allotment Date. If the Offer does not proceed, Application Monies received by the Company will be refunded in full (without interest). The Company takes no responsibility for Application Monies paid to the Lead Manager and Underwriter or Brokers until these are received by the Company.

The Company reserves the right to decline any Applications in whole or in part without giving any reason. An Application may be accepted by the Company in respect of the full number of Offer Shares specified in the Application or any of them without further notice to the Applicant. Acceptance of an Application will give rise to a binding contract.

The Company also reserves the right to close the Offer early, extend the Offer Closing Date or accept late Applications, either generally or in particular cases, in each case without notifying any recipient of this Prospectus or any Applicant.

## 7.24. Tax implications of investing in the Company

The taxation consequences of any investment in the Shares will depend on your particular circumstances. It is your responsibility to make your own enquiries concerning the taxation consequences of an investment in the Company.

A general overview of the Australian and New Zealand taxation implications of investing in the Company is set out in Section 9. The information in Section 9 is not intended as a substitute for investors obtaining independent tax advice in relation to their personal circumstances.

## 7.25. Further information

The Prospectus (including the Application Form) and information about the Offer can be accessed in electronic form at [www.smilesinc.com.au/prospectus](http://www.smilesinc.com.au/prospectus).

If you have queries about investing under the Offer, you should contact your stockbroker, financial adviser, accountant or other professional adviser.

If you have queries about how to apply under the Offer or would like additional copies of this Prospectus, please call the Offer Information Line on 1800 990 479 (within Australia) or +61 1800 990 479 (outside Australia) between 8.30am and 5.30pm AEST.

## 7.26. Acknowledgements

Each Applicant under the Offer will be deemed to have:

- » agreed to become a member of the Company and to be bound by the Constitution and the terms and conditions of the Offer;
- » acknowledged having personally received a printed or electronic copy of this Prospectus (and any supplementary or replacement prospectus) including or accompanied by the Application Form and having read them all in full;
- » declared that all details and statements in their Application Form are complete and accurate;
- » declared that the Applicant(s), if a natural person, is/are over 18 years of age;
- » acknowledged that, once the Company or a Broker receives an Application Form, it may not be withdrawn;
- » applied for the number of Shares at the Australian dollar amount shown on the front of the Application Form;
- » agreed to being allocated and issued the number of Shares applied for (or a lower number allocated in a way described in this Prospectus) or no Shares at all;
- » authorised the Company, the Lead Manager and Underwriter and their respective officers or agents, to do anything on behalf of the Applicant(s) necessary for Offer Shares to be allocated to the Applicant(s), including to act on instructions received by the Share Registry upon using the contact details in the Application Form;
- » acknowledged that, in some circumstances, the Company may not pay dividends, or that any dividends paid may not be franked;
- » acknowledged that the information contained in this Prospectus (or any supplementary or replacement prospectus) is not financial product advice or a recommendation that Offer Shares are suitable for Applicant(s), given the investment objectives, financial situation and particular needs (including financial and taxation issues) of the Applicant(s);
- » declared that the Applicant(s) is/are a resident of Australia or New Zealand (except as applicable to the Institutional Offer);
- » acknowledged and agreed that the Offer may be withdrawn by the Company or may otherwise not proceed in the circumstances described in this Prospectus; and
- » acknowledged and agreed that if Listing does not occur for any reason, the Offer will not proceed.

Each Applicant, will be taken to have represented, warranted and agreed as follows:

- » it understands that the Shares have not been, and will not be, registered under the US Securities Act or the securities laws of any state of the United States and may not be offered, sold or resold, pledged, transferred in the United States, except in accordance with the US Securities Act regulation requirements or in a transaction exempt from, or not subject to, registration under the US Securities Act and any other applicable state securities laws;
- » it is not in the United States;
- » it has not sent and will not send this Prospectus or any other material relating to the Offer to any person in the United States; and
- » it will not offer or sell the Shares in the United States or in any other jurisdiction outside Australia except in transactions exempt from, or not subject to, registration requirements of the US Securities Act and in compliance with all applicable laws in the jurisdiction in which Shares are offered and sold.

SECTION 8

# Investigating Accountant's Report and Financial Services Guide





**KPMG Transaction Services**

A division of KPMG Financial Advisory Services  
(Australia) Pty Ltd  
Australian Financial Services Licence No. 246901  
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The Directors  
Smiles Inclusive Limited  
38-40 Township Drive  
Burleigh Heads QLD 4220

13 March 2018

Dear Directors

**Limited Assurance Investigating Accountant's Report and Financial Services Guide**

**Introduction**

KPMG Financial Advisory Services (Australia) Pty Ltd (of which KPMG Transaction Services is a division) ("KPMG Transaction Services") has been engaged by Smiles Inclusive Limited ("Smiles Inclusive") to prepare this report for inclusion in the Prospectus to be dated on or about 13 March 2018 (the "Prospectus"), and to be issued by Smiles Inclusive, in respect of the proposed Initial Public Offer of shares in Smiles Inclusive and listing on the ASX (the "Transaction").

Expressions defined in the Prospectus have the same meaning in this report.

This Investigating Accountant's Report should be read in conjunction with the KPMG Transaction Services Financial Services Guide included in the Prospectus.

**Scope**

You have requested KPMG Transaction Services to perform a limited assurance engagement in relation to the Pro Forma Historical Financial Information, and the Forecast Financial Information described below and disclosed in the Prospectus.

The Pro Forma Historical Financial Information, and the Forecast Financial Information is presented in the Prospectus in an abbreviated form, insofar as it does not include all of the presentation and disclosures required by Australian Accounting Standards and other mandatory professional reporting requirements applicable to general purpose financial reports prepared in accordance with the *Corporations Act 2001*.

KPMG Financial Advisory Services (Australia) Pty Ltd is an affiliate of KPMG. KPMG is an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

### **Pro Forma Historical Financial Information**

You have requested KPMG Transaction Services to perform limited assurance procedures in relation to the Pro Forma Historical Financial Information of Smiles Inclusive (the responsible party) included in the Prospectus.

The Pro Forma Historical Financial Information has been derived from the historical financial information of Smiles Inclusive and the vendors under the Acquisition Agreements ("Vendors") (collectively, the "Group"), after adjusting for the effects of pro forma adjustments described in Section 4.3 of the Prospectus. The Pro Forma Historical Financial Information consists of the Group's:

- pro forma historical Income Statement for the year ended 30 June 2017;
- pro forma historical Cash Flows for the year ended 30 June 2017; and
- pro forma historical Balance Sheet as at 31 December 2017,

as set out in Tables 4A, 4D and 4F of Section 4 of the Prospectus issued by Smiles Inclusive (collectively the "Pro Forma Historical Financial Information").

The stated basis of preparation is the recognition and measurement principles contained in Australian Accounting Standards applied to the historical financial information and the event(s) or transaction(s) to which the pro forma adjustments relate, as described in Section 4.2 of the Prospectus. Due to its nature, the Pro Forma Historical Financial Information does not represent the company's actual or prospective balance sheet, income statement, and/or cash flows.

The Pro Forma Historical Financial Information has been compiled by Smiles Inclusive to illustrate the impact of the pro forma adjustments and transactions described in the Notes on Smiles Inclusive's balance sheet as at 31 December 2017 and Smiles Inclusive's income statement and cash flows for the period ended 30 June 2017. As part of this process, information about Smiles Inclusive's balance sheet, income statement and cash flows has been extracted by Smiles Inclusive from Smiles Inclusive's Aggregated Audited Accounts for the period ended 30 June 2017 and the financial statements of the Vendors for the same period.

The Aggregated Audited Accounts for the year ended 30 June 2017 were audited by KPMG in accordance with Australian Auditing Standards. The audit opinions issued to Smiles Inclusive relating to those accounts were unqualified.

For the purposes of preparing this report we have performed limited assurance procedures in relation to the Pro Forma Historical Financial Information in order to state whether, on the basis of the procedures described, anything comes to our attention that would cause us to believe that the Pro Forma Historical Financial Information is not prepared or presented fairly, in all

material respects, by the Directors in accordance with the stated basis of preparation as set out in Section 4.2 of the Prospectus.

We have conducted our engagement in accordance with the Standard on Assurance Engagements ASAE 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information*.

The procedures performed in a limited assurance engagement vary in nature from, and are less in extent than for, an audit. As a result, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had we performed an audit. Accordingly, we do not express an audit opinion about whether the Pro Forma Historical Financial Information is prepared, in all material respects, by the Directors in accordance with the stated basis of preparation.

***Forecast Financial Information and Directors' best-estimate assumptions***

You have requested KPMG Transaction Services to perform limited assurance procedures in relation to both the pro forma forecast Income Statement and Cash Flows of the Group and statutory forecast Income Statement and Cash Flows of Smiles Inclusive (the responsible party) for the period ending 30 June 2018, as set out in Tables 4A and 4D of Section 4 of the Prospectus (the "Forecast Financial Information"). The Directors' best-estimate assumptions underlying the Forecast Financial Information are described in Section 4.7 of the Prospectus. As stated in Section 4.2 of the Prospectus, the basis of preparation of the Forecast Financial Information is the recognition and measurement principles contained in Australian Accounting Standards and Smiles Inclusive's accounting policies.

We have performed limited assurance procedures in relation to the Forecast Financial Information, as set out in Tables 4A and 4D of Section 4 of the Prospectus, and the Directors' best-estimate assumptions underlying it in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that:

- the Directors' best-estimate assumptions used in the preparation of the Forecast Financial Information do not provide reasonable grounds for the Forecast Financial Information;
- in all material respects the Forecast Financial Information is not:
  - prepared on the basis of the Directors' best-estimate assumptions as described in the Prospectus; and
  - presented fairly in accordance with the recognition and measurement principles contained in Australian Accounting Standards and Smiles Inclusive's accounting policies;
- the Forecast Financial Information itself is unreasonable.

We have conducted our engagement in accordance with the Standard on Assurance Engagements ASAE 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information*.

The procedures performed in a limited assurance engagement vary in nature from, and are less in extent than for, an audit. As a result, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had we performed an audit. Accordingly, we do not express an audit opinion.

#### **Directors' responsibilities**

The Directors of Smiles Inclusive are responsible for the preparation of:

- the Pro Forma Historical Financial Information, including the selection and determination of the pro forma transactions and/or adjustments made to the Historical Financial Information and included in the Pro Forma Historical Information; and
- the Forecast Financial Information, including the Directors' best-estimate assumptions on which the Forecast Financial Information is based and the sensitivity of the Forecast Financial Information to changes in key assumptions.

The Directors' responsibility includes establishing and maintaining such internal controls as the Directors determine are necessary to enable the preparation of the Financial Information that is free from material misstatement, whether due to fraud or error.

#### **Conclusions**

##### ***Review statement on the Pro Forma Historical Financial Information***

Based on our procedures, which are not an audit, nothing has come to our attention that causes us to believe that the Pro Forma Historical Financial Information, as set out in Tables 4A, 4D and 4F of Section 4 of the Prospectus, comprising:

- the pro forma historical Income Statement of the Group for the year ended 30 June 2017;
- the pro forma historical Cash Flows of the Group for the year ended 30 June 2017; and
- the pro forma historical Balance Sheet of the Group as at 31 December 2017,

is not prepared or presented fairly, in all material respects, on the basis of the pro forma transactions and/or adjustments described in Table 4C of Section 4 of the Prospectus, and in accordance with the recognition and measurement principles prescribed in Australian Accounting Standards, and Smiles Inclusive's accounting policies.

***Forecast Financial Information and the Directors' best-estimate assumptions***

Based on our procedures, which are not an audit, nothing has come to our attention which causes us to believe that:

- the Directors' best-estimate assumptions used in the preparation of the Forecast Financial Information for the year ending 30 June 2018 do not provide reasonable grounds for the Forecast Financial Information; and
- in all material respects, the Forecast Financial Information:
  - is not prepared on the basis of the Directors' best-estimate assumptions as described in Section 4.7 of the Prospectus; and
  - is not presented fairly in accordance with the recognition and measurement principles contained in Australian Accounting Standards, and Smiles Inclusive's accounting policies; and
- the Forecast Financial Information itself is unreasonable.

The Forecast Financial Information has been prepared by Smiles Inclusive management and adopted and disclosed by the Directors in order to provide prospective investors with a guide to the potential income statement of Smiles Inclusive for the period ended 30 June 2018.

There is a considerable degree of subjective judgement involved in preparing forecasts since they relate to pro forma adjustments/transactions that have not yet occurred and may not occur. Actual results are likely to be different from the Forecast Financial Information since anticipated pro forma adjustments/transactions frequently do not occur as expected and the variation may be material. The Directors' best-estimate assumptions on which the Forecast Financial Information is based relate to future pro forma adjustments/transactions that management expect to occur and actions that management expect to take and are also subject to uncertainties and contingencies, which are often outside the control of Smiles Inclusive. Evidence may be available to support the Directors' best-estimate assumptions on which the Forecast Financial Information is based however such evidence is generally future-oriented and therefore speculative in nature. We are therefore not in a position to express a reasonable assurance conclusion on those best-estimate assumptions, and accordingly, provide a lesser level of assurance on the reasonableness of the Directors' best-estimate assumptions. The limited assurance conclusion expressed in this report has been formed on the above basis.

Prospective investors should be aware of the material risks and uncertainties in relation to an investment in Smiles Inclusive, which are detailed in the Prospectus, and the inherent uncertainty relating to the Forecast Financial Information. Accordingly, prospective investors should have regard to the investment risks and sensitivities as described in Section 5 of the Prospectus. The sensitivity analysis described in Section 4.8 of the Prospectus demonstrates the

impact on the Forecast Financial Information of changes in key best-estimate assumptions. We express no opinion as to whether the Forecast Financial Information will be achieved.

We have assumed, and relied on representations from certain members of management of Smiles Inclusive, that all material information concerning the prospects and proposed operations of Smiles Inclusive has been disclosed to us and that the information provided to us for the purpose of our work is true, complete and accurate in all respects. We have no reason to believe that those representations are false.

#### **Independence**

KPMG Transaction Services does not have any interest in the outcome of the proposed Transaction, other than in connection with the preparation of this report and participation in due diligence procedures for which normal professional fees will be received. KPMG is the auditor of Smiles Inclusive and from time to time, KPMG also provides Smiles Inclusive with certain other professional services for which normal professional fees are received.

#### **General advice warning**

This report has been prepared, and included in the Prospectus, to provide investors with general information only and does not take into account the objectives, financial situation or needs of any specific investor. It is not intended to take the place of professional advice and investors should not make specific investment decisions in reliance on the information contained in this report. Before acting or relying on any information, an investor should consider whether it is appropriate for their circumstances having regard to their objectives, financial situation or needs.

#### **Restriction on use**

Without modifying our conclusions, we draw attention to Section 4.1 of the Prospectus, which describes the purpose of the financial information, being for inclusion in the Prospectus. As a result, the financial information may not be suitable for use for another purpose. We disclaim any assumption of responsibility for any reliance on this report, or on the Financial Information to which it relates, for any purpose other than that for which it was prepared.

KPMG Transaction Services has consented to the inclusion of this Investigating Accountant's Report in the Prospectus in the form and context in which it is so included, but has not authorised the issue of the Prospectus. Accordingly, KPMG Transaction Services makes no representation regarding, and takes no responsibility for, any other statements, or material in, or omissions from, the Prospectus.

***Smiles Inclusive Limited***  
*Limited Assurance Investigating Accountant's Report and*  
*Financial Services Guide*  
13 March 2018

Yours faithfully



Anne-Maree Keane  
Authorised Representative

**KPMG Transaction Services**

A division of KPMG Financial Advisory Services  
(Australia) Pty Ltd  
Australian Financial Services Licence No. 246901  
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## Financial Services Guide Dated 13 March 2018

**What is a Financial Services Guide (FSG)?**

This FSG is designed to help you to decide whether to use any of the general financial product advice provided by **KPMG Financial Advisory Services (Australia) Pty Ltd ABN 43 007 363 215**, Australian Financial Services Licence Number 246901 (of which KPMG Transaction Services is a division) (**'KPMG Transaction Services'**), and Anne-Maree Keane as an authorised representative of KPMG Transaction Services, authorised representative number (1236095) (**Authorised Representative**).

This FSG includes information about:

- KPMG Transaction Services and its Authorised Representative and how they can be contacted;
- the services KPMG Transaction Services and its Authorised Representative are authorised to provide;
- how KPMG Transaction Services and its Authorised Representative are paid;
- any relevant associations or relationships of KPMG Transaction Services and its Authorised Representative;
- how complaints are dealt with as well as information about internal and external dispute resolution systems and how you can access them; and
- the compensation arrangements that KPMG Transaction Services has in place.

The distribution of this FSG by the Authorised Representative has been authorised by KPMG Transaction Services. This FSG forms part of an Investigating Accountant's Report (Report) which has been prepared for inclusion in a disclosure document or, if you are offered a financial product for issue or sale, a Product Disclosure Statement (PDS). The purpose of the disclosure document or PDS is to help you make an informed decision in relation to a financial product. The contents of the disclosure document or PDS, as relevant, will include details such as the risks, benefits and costs of acquiring the particular financial product.

**Financial services that KPMG Transaction Services and the Authorised Representative are authorised to provide**

KPMG Transaction Services holds an Australian Financial Services Licence, which authorises it to provide, amongst

other services, financial product advice for the following classes of financial products:

- deposit and non-cash payment products;
- derivatives;
- foreign exchange contracts;
- government debentures, stocks or bonds;

KPMG Financial Advisory Services (Australia) Pty Ltd is an affiliate of KPMG. KPMG is an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

- interests in managed investments schemes including investor directed portfolio services;
- securities;
- superannuation;
- carbon units;
- Australian carbon credit units; and
- eligible international emissions units,

to retail and wholesale clients. We provide financial product advice when engaged to prepare a report in relation to a transaction relating to one of these types of financial products. The Authorised Representative is authorised by KPMG Transaction Services to provide financial product advice on KPMG Transaction Services' behalf.

**KPMG Transaction Services and the Authorised Representative's responsibility to you**

KPMG Transaction Services has been engaged by Smiles Inclusive Limited (Smiles Inclusive) (Client) to provide general financial product advice in the form of a Report to be included in the Prospectus (Document) prepared by Smiles Inclusive in relation to the proposed initial public offering of shares in Smiles Inclusive (Transaction).

You have not engaged KPMG Transaction Services or the Authorised Representative directly but have received a copy of the Report because you have been provided with a copy of the Document. Neither KPMG Transaction Services nor the Authorised Representative are acting for any person other than the Client.

KPMG Transaction Services and the Authorised Representative are responsible and accountable to you for ensuring that there is a reasonable basis for the conclusions in the Report.

**General Advice**

As KPMG Transaction Services has been engaged by the Client, the Report only contains general advice as it has been prepared without taking into account your personal objectives, financial situation or needs.

You should consider the appropriateness of the general advice in the Report having regard to your circumstances

before you act on the general advice contained in the Report.

You should also consider the other parts of the Document before making any decision in relation to the Transaction.

**Fees KPMG Transaction Services may receive and remuneration or other benefits received by our representatives**

KPMG Transaction Services charges fees for preparing reports. These fees will usually be agreed with, and paid by, the Client. Fees are agreed on either a fixed fee or a time cost basis. In this instance, the Client has agreed to pay KPMG Transaction Services \$280,000 for preparing the Report. KPMG Transaction Services and its officers, representatives, related entities and associates will not receive any other fee or benefit in connection with the provision of the Report. In addition, other KPMG entities have performed work in relation to the audit and the Client has agreed to pay \$255,000 for these services as at the date of the Prospectus.

KPMG Transaction Services officers and representatives (including the Authorised Representative) receive a salary or a partnership distribution from KPMG's Australian professional advisory and accounting practice (the KPMG Partnership). KPMG Transaction Services' representatives (including the Authorised Representative) are eligible for bonuses based on overall productivity. Bonuses and other remuneration and benefits are not provided directly in connection with any engagement for the provision of general financial product advice in the Report.

Further details may be provided on request.

**Referrals**

Neither KPMG Transaction Services nor the Authorised Representative pay commissions or provide any other benefits to any person for referring customers to them in connection with a Report.

**Associations and relationships**

Through a variety of corporate and trust structures KPMG Transaction Services is controlled by and operates as part of the KPMG Partnership. KPMG Transaction Services'

Directors and Authorised Representatives may be partners in the KPMG Partnership. The Authorised Representative is a partner in the KPMG Partnership. The financial product advice in the Report is provided by KPMG Transaction Services and the Authorised Representative and not by the KPMG Partnership.

From time to time KPMG Transaction Services, the KPMG Partnership and related entities (KPMG entities) may provide professional services, including audit, tax and financial advisory services, to companies and issuers of financial products in the ordinary course of their businesses.

Other than the fees disclosed above, KPMG entities have not provided other services or received other professional fees from the Client.

No individual involved in the preparation of this Report holds a substantial interest in, or is a substantial creditor of, the Client or has other material financial interests in the transaction.

#### **Complaints resolution**

##### Internal complaints resolution process

If you have a complaint, please let either KPMG Transaction Services or the Authorised Representative know. Formal complaints should be sent in writing to The Complaints Officer, KPMG, PO Box H67, Australia Square, Sydney NSW 1213. If you have difficulty in putting your complaint in writing, please telephone the Complaints Officer on 02 9335 7000 and they will assist you in documenting your complaint.

Written complaints are recorded, acknowledged within 5 days and investigated. As soon as practical, and not more than 45 days after receiving the written complaint, the response to your complaint will be advised in writing.

##### External complaints resolution process

If KPMG Transaction Services or the Authorised Representative cannot resolve your complaint to your satisfaction within 45 days, you can refer the matter to the Financial Ombudsman Service (FOS). FOS is an independent company that has been established to

provide free advice and assistance to consumers to help in resolving complaints relating to the financial services industry.

Further details about FOS are available at the FOS website [www.fos.org.au](http://www.fos.org.au) or by contacting them directly at:

Address: Financial Ombudsman Service Limited, GPO Box 3, Melbourne, Victoria, 3001

Telephone: 1300 78 08 08

Facsimile: (03) 9613 6399

Email: [info@fos.org.au](mailto:info@fos.org.au).

The Australian Securities and Investments Commission also has a freecall infoline on 1300 300 630 which you may use to obtain information about your rights.

#### **Compensation arrangements**

KPMG Transaction Services has professional indemnity insurance cover as required by the Corporations Act 2001(Cth).

#### **Contact Details**

You may contact KPMG Transaction Services or the Authorised Representative using the contact details:

KPMG Transaction Services  
A division of KPMG Financial Advisory  
Services (Australia) Pty Ltd  
Level 38, Tower Three  
300 Barangaroo Avenue  
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Queensland, 4001, Australia  
Telephone: (07) 3233 3111  
Facsimile: (07) 3233 3100

SECTION 9

# Taxation



## 9.1. Summary of Australian Taxation Implications

The following summary in Sections 9.1 to 9.5 provides an overview of the Australian tax implications of the Offer for investors who are residents of Australia or New Zealand for tax purposes and who hold their Shares as capital assets. This summary is based on the law in effect as at the Prospectus Date, is general in nature and should not be relied on by potential investors as tax advice. Potential investors should seek specific advice applicable to their own particular circumstances from their own financial or tax advisers.

This Section does not consider the Australian tax consequences for particular types of investors, including those:

- » whose Shares are held as trading stock or otherwise on revenue account; or
- » that may be subject to special tax rules, such as insurance companies, banks, partnerships, tax exempt organizations, trusts (except where expressly stated), superannuation funds (except where expressly stated), or temporary residents; or
- » who are tax residents of any jurisdiction other than Australia (except where expressly stated); or
- » who are subject to the Australian Taxation of Financial Arrangement rules under Division 230 of the *Income Tax Assessment Act 1997* (Cth).

## 9.2. Australian Income tax implications of Future Share Disposals

### 9.2.1. Australian Resident Shareholders

Australian resident shareholders who dispose of Shares held on capital account will trigger a Capital Gains Tax (CGT) event. Australian resident shareholders will:

- » make a capital gain if the capital proceeds received on the disposal of their Shares are greater than the cost base of those Shares; or
- » make a capital loss if the capital proceeds received on the disposal of their Shares are less than the reduced cost base of those Shares.

The capital proceeds received on disposal of Shares should generally be equal to the money received in respect of the disposal. The cost base of Shares subscribed for under the Offer should generally be equal to the Issue Price plus any incidental costs (i.e. brokerage). The reduced cost base should be the same as the cost base, subject to some modifications.

Any capital gain on disposal of the Shares in the Company may qualify as a discount capital gain for certain Australian Resident Shareholders that are individuals, trusts or complying superannuation funds that have held their Shares for more than 12 months. Where the CGT discount applies, the amount of the capital gain may be discounted by 50% for individuals and trusts and 33 1/3% for complying superannuation funds and life insurance companies in respect of certain investments. Where the Shareholder is a trust to which the CGT discount applies, the CGT discount may flow through to the beneficiaries of the trust if those beneficiaries are not companies. Shareholders which are trusts should seek specific advice as to the circumstances in which a beneficiary may be entitled to discount capital gains treatment.

Prior to applying the CGT discount Shareholders may offset their capital gain against any available capital losses incurred in the relevant income year or any carry forward net capital losses. The net capital gain (after applying any losses and the CGT discount) should be included in their assessable income in the relevant income year.

To the extent Shareholders incur a capital loss on disposal of the Shares in the Company, Shareholders may offset their capital loss against any capital gains derived in the relevant income year. Where the capital losses incurred in the relevant income year exceed the capital gains derived in the relevant income year, Shareholders may be entitled to carry forward the excess (referred to as a 'net capital loss') to future income years subject to the application of the loss recoupment rules in certain cases. Shareholders cannot offset their net capital losses against their ordinary income.

### 9.2.2. Non-Resident Shareholders

Non-Australian resident Shareholders who hold Shares on capital account will not be subject to Australian CGT on the disposal of Shares unless:

- » the non-resident, together with associates, has a holding of at least 10 percent of all the issued Shares of the Company (non-portfolio interest); and
- » at the time of disposal, more than 50 percent of the market value of the assets of the Company is represented (directly or indirectly) by real property interests in Australia (including leases of land) or certain mining, quarrying and prospecting rights in Australia.

Non-Australian resident and temporary resident Shareholders are not entitled to discount capital gains in respect of the disposal of Ordinary Shares that were acquired by the Shareholder after 8 May 2012.

Relevant double taxation agreements may affect the Australian capital gains tax rules for non-resident Shareholders on the disposal of Shares.

Non-resident Shareholders who have a non-portfolio interest together with their associates in the circumstances described above should seek specific Australian tax advice. Non-resident Shareholders that have previously been Australian residents should also seek specific Australian tax advice.

## 9.3. Australian Income tax implications of Payment of Dividends

### 9.3.1. Australian Resident Shareholders

Dividends will be required to be included in an Australian resident Shareholder's assessable income in the income year in which the dividend is received. To the extent that franking credits are attached to the dividend, Australian resident Shareholders should also include the franking credits in their assessable income. Where Shareholders include franking credits in their assessable income, Shareholders should be entitled to a corresponding tax offset against their tax payable for the relevant income year.

In order for Shareholders to qualify for franking credits and the corresponding tax offset, Shareholders must satisfy the 'holding period' rules which require Shareholders to hold their Shares 'at risk' for a period of not less than 45 days, not counting the day of acquisition or disposal. The 'holding period' rules do not apply to Shareholders who are individuals who are entitled to tax offsets (for all franked distributions received by the particular Shareholder in the relevant income year) of not greater than \$5,000 for the relevant income year.

Where the holding period rule is satisfied:

- » Shareholders that are individuals or complying superannuation funds should be entitled to a tax offset equal to the amount of the franking credits attached to a dividend. Where these Shareholders have franking credits in excess of their income tax liability they may be entitled to a refund equal to the excess.
- » Shareholders that are companies should be entitled to a tax offset equal to the amount of the franking credits attached to a dividend. Accordingly, these Shareholders should not pay any additional tax on the dividend to the extent that it is franked. Any excess tax offset may be able to be converted to a carry forward tax loss. A credit should arise in the franking account of these Shareholders equal to the amount of the franking credits attached to the dividend.

Where Shares are held by Australian resident trusts or partnerships, and the dividend is passed through to Australian resident beneficiaries or partners, the benefit of the franking credit attached to the dividend may also pass through to those Australian resident beneficiaries or partners. The income tax treatment of the dividends including any franking credits in the hands of those beneficiaries or partners should depend upon the tax status of the beneficiaries or partners.

### 9.3.2. Non-Resident Shareholders

Subject to the operation of a double taxation agreement, unfranked dividends paid by the Company to non-resident Shareholders will generally be subject to withholding tax at the rate of 30 per cent. A lower rate of withholding tax will generally apply where the Shareholder is a resident of country with which Australia has a double taxation agreement.

Franked dividends paid to non-resident Shareholders will generally not be subject to withholding tax.

## 9.4. Australian Income Tax Implications of Returns of capital

If a return of capital is made by the Company, to the extent it is not treated as a dividend for income tax purposes, the cost base and reduced cost base of a Shareholder's Shares for CGT purposes should be reduced by the amount of the return of capital, with any excess over the cost base resulting in a capital gain.

## 9.5. Other Australian tax implications

### 9.5.1. Goods and Services Tax

No GST is payable in respect of the acquisition of Shares nor should there be any GST liability arising from the receipt of dividends in respect of the Shares. An Australian resident that is registered or required to be registered for GST seeking to claim input tax credits on related transaction costs should seek their own independent tax advice in this regard.

### 9.5.2. Stamp Duty

No Australian stamp duty should be payable in respect of the subscription for the Offer Shares under this Prospectus.

This is on the basis the Company and its subsidiaries do not amount to landholders for the purposes of any Australian duties legislation.

### 9.5.3. Tax File Number (TFN) Withholding Tax

Shareholders are not required to quote their TFN to the Company. If Shareholders do not quote their TFN or other relevant exemption details, tax may be required to be withheld by the Company from certain distributions at the top marginal rate plus the Medicare levy.



## SECTION 10

# Material Agreements

The material agreements described below are those which the Directors consider that an investor would reasonably regard as material and which investors and their professional advisers would reasonably expect to find described in this Prospectus for the purpose of making an informed assessment of an investment in the Company under the Offer.

This Section contains a summary of the material agreements and their substantive terms which are not otherwise disclosed elsewhere in this Prospectus.

## 10.1. Underwriting Agreement

The Lead Manager and Underwriter have agreed to manage the Offer pursuant to the terms of the underwriting agreement signed by the Lead Manager and Underwriter and the Company on the date of this Prospectus (**Underwriting Agreement**).

### 10.1.1. Fees, costs and expenses

The Company has agreed to pay the Lead Manager and Underwriter:

- » an underwriting fee of 4% of the gross proceeds of the Offer (exclusive of GST); and
- » a process management fee of 1% of the gross proceeds of the Offer (exclusive of GST),

in connection with their role as Lead Manager and Underwriter (**Underwriting Fee**).

The Company has agreed to reimburse the Lead Manager and Underwriter for all reasonable out-of-pocket expenses reasonably incurred in connection with the Offer including legal fees up to a limit of \$25,000, travel costs, document production and other customary expenses associated with an offer such as the Offer provided that any individual expense over \$1,000 (excluding GST) has been approved by the Company prior to the expense being incurred by the Lead Manager and Underwriter (other than in respect of legal expenses).

### 10.1.2. Indemnity

The Company has agreed to indemnify the Lead Manager and Underwriter and its related bodies corporate and each of their respective directors, officers, partners, employees, agents and advisers (**Indemnified Parties**) against all losses, claims, damages, costs, liabilities, demands, charges and expenses arising out of (amongst other things):

- » making the Offer and issuing the Offer Shares;
- » any liability under the Corporations Act or other applicable laws in relation to the Offer or the Prospectus; or
- » the Company failing to comply with the terms of the Underwriting Agreement or other binding obligations in respect of the Prospectus or the Offer, including any of the representations and warranties by the Company contained in the Underwriting Agreement not being or ceasing to be true or correct,

except to the extent that the loss or claim:

- » results from any wilful default, fraud or negligence of the Indemnified Parties;
- » results from any penalty or fine which an Indemnified Party is required to pay for any contravention by it of the Corporations Act or any other applicable law; or
- » is indirect or consequential loss.

### 10.1.3. Warranties

The Underwriting Agreement contains certain representations, warranties and undertakings provided by the Company to the Lead Manager and Underwriter relating to matters such as its powers, its conduct (including in respect of disclosure and compliance with applicable laws and the ASX Listing Rules), information provided and the conduct of the Offer.

The Company's undertakings include that it will not, during the period following the date of the Underwriting Agreement until 90 days after the Offer Settlement Date, issue or agree to issue any equity securities or securities that are convertible or exchangeable into equity without the consent of the Lead Manager and Underwriter, other than pursuant to the Offer or as contemplated under the Prospectus, or under any share purchase plan, dividend or distribution plan or employee security plan approved by the security holders of the Company.

### 10.1.4. Termination events

The Underwriting Agreement is subject to customary termination events. The Lead Manager and Underwriter may (in certain circumstances, having regard to the materiality of the relevant event) terminate the Underwriting Agreement at any time prior to the Settlement Date without cost or liability and be released from their obligations under it on the occurrence of certain events set out in the Underwriting Agreement, including (but not limited to those set out below).

- » The Prospectus does not comply with the Corporations Act (including if a statement in the Prospectus is or becomes misleading or deceptive, or a matter required to be included is omitted from the Prospectus), the ASX Listing Rules, or any other applicable law or regulation and cannot be adequately corrected or rectified through the issue of a supplementary prospectus.
- » The Company issues a supplementary or replacement prospectus to comply with section 719 of the Corporations Act in a form that has not been approved by the Lead Manager and Underwriter.
- » The S&P/ASX 200 Index or the S&P/ASX Small Ordinaries fall at any time during the period after the Prospectus is lodged and prior to the Offer Settlement Date falls to a level that is 10% below the level of the index at the close of trading on the trading day immediately prior to the date of the Prospectus and remains at that level for a period of at least two consecutive business days.
- » ASX approval is refused or not granted, or approval is granted subject to conditions other than customary conditions, to:
  - the Company's admission to the Official List on or before the date prior to the Listing; or
  - the quotation of the Offer Shares on ASX on or before the Quotation Date; or
  - if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld.

- » Any of the following notifications are made in respect of the Offer:
  - ASIC issues an order (including an interim order) under section 739 of the Corporations Act;
  - ASIC issues a notice of its intention to hold a hearing under section 739(2) of the Corporations Act;
  - an application is made by ASIC for an order under Part 9.5 in relation to the Prospectus or ASIC commences any investigation or hearing under Part 3 of the *Australian Securities & Investments Commission Act 2001* (Cth) in relation to the Prospectus;
  - any person (other than the Lead Manager and Underwriter seeking to terminate) who has previously consented to the inclusion of its name in the Prospectus withdraws that consent; or
  - The Company withdraws the Prospectus or terminates the Offer or part of the Offer.
- » The Company or any other member of the group is or becomes insolvent or there is an act or omission which may result in the Company or any other member of the group becoming insolvent.
- » There is a 'Material Adverse Effect' (as defined in the Underwriting Agreement) when compared to the position disclosed in the Prospectus.
- » Any event specified in the timetable for the Offer is delayed for more than three Business Days without the prior written consent of the Lead Manager and Underwriter (which must not be unreasonably withheld or delayed).

#### 10.1.5. Completion of Acquisitions

ASX will require completion of a threshold level of Acquisitions prior to Listing and the Company has also agreed with the Lead Manager and Underwriter that it must be satisfied with progress towards completing the Acquisitions (acting reasonably) prior to the Offer Shares being issued and allotted.

#### 10.1.6. Other matters

The Lead Manager and Underwriter has not authorised or caused the issue of this Prospectus and it does not take any responsibility for this Prospectus or any action taken by you on the basis of the information in this Prospectus.

It is important to note that the Lead Manager and Underwriter will be acting for and providing services to the Company in this process and will not be acting for or providing services to Shareholders (including the New Shareholders) or any other investor. The engagement of the Lead Manager and Underwriter is not intended to create any agency, fiduciary or other relationship between the Lead Manager and Underwriter and the Shareholders (including the New Shareholders) or any other investor.

## 10.2. Finance Facility

### Description of Finance Facility

Smiles Inclusive has entered into a credit approved term sheet with NAB Health Corporate (**Financier**) for the provision of the following key financing facilities (collectively the **Finance Facility**):

FACILITY PURPOSE	FACILITY LIMIT AS AT COMPLETION	TERM / MATURITY
Senior debt and acquisition facility ( <b>Acquisition Facility</b> )	\$30,000,000	60 months
Cashflow facility ( <b>Working Capital Facility</b> )	\$4,000,000	18 months
Bank guarantee facility	\$2,000,000	12 months
Purchasing card facility	N/A	12 months
Transactional banking facilities	As agreed from time to time	12 months

### Use of Finance Facility

The Acquisition Facility will be available to fund future dental practice acquisitions that meet agreed criteria which are in line with the Company's preferred acquisition model.

The Working Capital Facility cannot be used to fund future acquisitions but will be available to meet general working capital needs of the Group.

### Financial covenants, other representations and review events under the Finance Facility

The Finance Facility will contain representations, warranties and undertakings typical for facilities of this nature.

Key financial covenants include:

- » net debt/EBITDA, which must remain below 2.5 times; and
- » fixed charges cover, which must remain above 2 times.

Smiles Inclusive expects to remain in compliance with these at all relevant times.

Failure to meet the relevant financial covenants or breach of any of the representations or warranties may lead to an event of default under the Finance Facility. In the event of a default there may be a requirement to make repayments in advance of the relevant maturity dates of any given facility.

The Finance Facility will also contain review events (including in respect of material adverse changes in the Group's business and changes of control). A review event may result in the Financier varying the conditions of the Finance Facility or requiring funds to be repaid on an accelerated basis with the Finance Facility being cancelled.

### Security

Totally Smiles and Smiles Southport (**Guarantors**) will enter into interlocking guarantees and indemnities in favour of the Financier in respect of Smiles Inclusive's obligations under the Finance Facility.

Smiles Inclusive and the Guarantors will also grant various security interests over their present and after-acquired property to secure the obligations under the Finance Facility.

## 10.3. Acquisition Agreements

### Overview

Totally Smiles, a wholly owned subsidiary of the Company, has entered agreements to acquire 52 dental practices<sup>13</sup>, located in Queensland, New South Wales, Victoria, the Australian Capital Territory, South Australia and Western Australia. Further detail is included in Section 3.

Except for one Practice, Totally Smiles has agreed to acquire the business and assets of the relevant dental practice under a business sale agreement. One Acquisition will occur by Totally Smiles acquiring the share capital of the company that operates the Practice.<sup>14</sup>

The vendors under the Acquisition Agreements will receive consideration in cash upon completion of the Acquisition, although most vendors (directly or through a nominee) have agreed to contribute capital to participate in the Joint Venture Partner Programme (see further Section 10.5). The aggregate amount required by the Group to fund completion of the Acquisitions is approximately \$66 million, of which approximately \$21 million is being paid to the Group by JV Partners under the Joint Venture Partner Agreements. The general metric applied in calculating the purchase price for the Acquisitions has been a five times multiple of the normalised EBIT of the relevant Practice for FY17.

The terms of the Acquisition Agreements provide for certain adjustments to the purchase price, such as a price reduction on account of certain accrued entitlements of employees that transfer to the Group.

The Acquisitions are occurring on a debt-free and cash-free basis, meaning the Group does not assume any existing debt or acquire any cash of the Practices on completion of the Acquisitions.

Completion under the Acquisition Agreements is subject to satisfaction or waiver of a number of conditions precedent, which are generally common across the Acquisition Agreements. The material conditions which have not yet been satisfied or waived as at the Prospectus Date are generally:

- » most employees and contractors of the Practice accepting offers of employment or other engagement with the Group;
- » release of security interests over the assets being acquired;
- » certain 'key' contracts (including the lease of the premises) being transferred to the Group, or replacement or amended contracts being entered into by the Group;
- » no event, occurrence, fact or circumstance occurring which could reasonably be expected to be materially adverse to the Practice being acquired; and
- » completion of the Offer.

If any of these conditions precedent are not satisfied or waived by the party with the benefit of that condition before the applicable conditions precedent date, that party may terminate the relevant Acquisition Agreement, provided that party is not in breach of a material obligation under the agreement.

The vendors have given warranties and indemnities in respect of the Practice (and the underlying assets and liabilities) (**Seller Warranties**) which are typical for agreements of this nature. The period under which claims for breaches of a Seller Warranty can be made is generally 24 months or longer. The aggregate liability for breach of the Seller Warranties under each Acquisition Agreement is generally the total purchase price for the Acquisition. The Seller Warranties and obligations of the vendor under the Acquisition Agreement are in most cases guaranteed by the principal practitioner of the Practice and the JV Partner.

The vendors have agreed to comply with (and to procure certain key practitioners comply with) non-solicit and non-compete restraint of trade obligations for periods generally between two and four years after completion of the relevant Acquisition Agreement, within an agreed locality. These obligations are supported by the abovementioned guarantees.

### Variances from standard terms

While the terms of the Acquisition Agreements are generally consistent, the Group has negotiated and agreed certain amendments on a case by case basis.

One of the Acquisitions will occur by Totally Smiles acquiring the share capital of the company that operates the Practice.<sup>15</sup> The commercial terms of this Acquisition are generally consistent with the other Acquisition Agreements, however there are a number of changes reflective of the different acquisition structure.

The following amendments apply to a number of Acquisition Agreements:

- » Totally Smiles has agreed to pay certain vendors an additional amount on account of the receivables of the Practice;
- » the vendor's (and guarantor's) aggregate liability for breaches of the Seller Warranties under the Acquisition Agreement has in certain circumstances been limited to a proportion of the total purchase price (rather than the whole purchase price); and
- » in a limited number of agreements, restraint of trade obligations applying to vendors and practitioners have been modified such that:
  - the restraints cease to apply in certain circumstances including, for example, where Totally Smiles closes the Practice, becomes insolvent, or terminates the FASA without cause; and
  - where a vendor or practitioner owns an additional practice that is not being acquired by the Group, the relevant vendor and practitioner may continue to own and work in the non-Group practice following completion of the Acquisition Agreement.

<sup>13</sup> Number of practices may not equate to the number of fixed premises. A single practice may have multiple outlets. Figure includes one mobile practice.

<sup>14</sup> Totally Smiles has agreed to acquire the share capital of Distinctive Dental Care Pty Ltd ACN 010 691 031.

<sup>15</sup> Totally Smiles has agreed to acquire the share capital of Distinctive Dental Care Pty Ltd ACN 010 691 031.

The following specific variances have been agreed:

- » additional conditions precedent to completion have been inserted for certain Acquisitions as required to address structuring points and implement the commercial agreement. In respect of one Practice (that is a mobile clinic), it is a condition precedent that leases of the relevant vehicles are entered into;
- » one vendor has the right to purchase the Practice back from Totally Smiles for the same purchase price paid by Totally Smiles under the Acquisition Agreement in the event that claims made by Totally Smiles under the Seller Warranties exceed \$750,000 during the claims period (rather than paying the claim amount); and
- » in one scenario, two Practices being acquired will be consolidated after completion of these Acquisitions. Changes have been made to reflect that one of the Practices will be closed, with its business to be merged with the second Practice.

The Group has also agreed to acquire specific items of equipment from certain vendors of the Practices, where such equipment is excess to the assets currently utilised in the Practice and transferred under the Acquisition Agreements. These agreements typically provide for the Group to acquire the specific equipment for an additional cash payment equal to its fair value.

#### 10.4. Facilities and Services Agreements (FASAs)

Under the FASA, Totally Smiles is engaged by dental practitioners (and/or their operating entities) to provide a fully serviced and equipped facility from which the practitioner may deliver dental services to members of the public.

The services provided by Totally Smiles include such services and functions as are necessary for practitioners to deliver dental services from the premises. In addition to providing and maintaining the premises and necessary equipment, Totally Smiles also provides various support services such as stock maintenance, the maintenance of financial records and accounts, the provision of support staff and fee collection and billing.

The practitioner is required to pay Totally Smiles a service fee for the services provided under the FASA. The fee is principally determined as a percentage of money banked from dental services performed by the relevant practitioner, taking into account laboratory and other fees incurred.

All practitioners engaged under the FASA are responsible for the manner in which dental services are provided and required to have professional indemnity insurance. Where a practitioner accepts an appointment as 'lead practitioner' of the Practice, the practitioner has additional responsibility and influence in relation to the overall direction and management of the Practice. Totally Smiles also generally has flexibility to appoint a new 'lead practitioner' for the Practice, if circumstances require.

Generally, Totally Smiles may terminate the FASA without cause on three months' notice, while the practitioner is required to give six months' notice. In many cases, the practitioner has agreed to commit to a minimum term under the FASA, which has been requested by Totally Smiles to assist with practitioner retention in certain targeted circumstances.

Totally Smiles may terminate the FASA immediately in certain circumstances, including where the practitioner fails to provide dental services regularly or does not perform dental services at the required professional standard. Other termination triggers include (among others) breach, serious misconduct, insolvency, a 'closure event' in relation to the relevant Practice and a failure by the practitioner to maintain appropriate registrations.

Practitioners agree to non-solicit and non-compete restraint of trade obligations, both during the term and for a period of up to two years following termination of the FASA, within a certain radius from the Practice.

#### Variances from standard terms

While the terms of the FASAs are generally consistent, the Group has negotiated and agreed certain amendments on a case by case basis.

The following amendments apply to a number of FASAs:

- » some Practices have two lead practitioners, who share the relevant responsibilities;
- » certain lead practitioners can only be removed from this role by Totally Smiles for cause, or after certain consultation has occurred;
- » in a limited number of agreements, restraint of trade obligations have been modified such that:
  - the restraints cease to apply in certain circumstances including, for example, where Totally Smiles closes the Practice, becomes insolvent, or terminates the FASA without cause; and
  - where a vendor or practitioner owns an additional practice that is not being acquired by the Group, the practitioner may continue to own and/or work in the non-Group practice following completion of the Acquisition Agreement;
- » in certain limited cases where Totally Smiles considers there is an appropriate commercial rationale, Totally Smiles has agreed that the practitioner will be entitled to retain (or be paid) a minimum or fixed amount. This differs from the template FASA where practitioners are only entitled to the balance money earned by the practitioner after payment to Totally Smiles of its service fee; and
- » in certain cases, Totally Smiles has agreed to give six months' notice if it wishes to terminate without cause, and to also provide additional notice of proposed 'closure events' that may affect the Practice and result in termination.

The following specific variances have been agreed:

- » one practitioner cannot be terminated without cause for a period of five years after commencement of the FASA; and
- » one practitioner has a reduced restraint period of one year following termination of the FASA.

#### 10.5. Joint Venture Partner Agreements

The Joint Venture Partner Programme has been established to provide an opportunity for JV Partners to share in the ongoing growth of a particular Practice by receiving a share of the profits generated at that Practice.

Vendors under the Acquisition Agreements have collectively agreed to invest approximately \$21 million in the Joint Venture Partner Programme. The Joint Venture Partner Programme exists independently of the FASAs.

After making a cash 'buy-in' contribution and following completion of the Acquisition Agreement for the relevant Practice, the JV Partner has a contractual entitlement to receive a stated proportion of the profit of the Practice, with the proportion being based on the value of the JV Partner's buy in contribution. Participation in the Joint Venture Partner Programme does not however give rise to any legal or beneficial interest in the relevant Practice, any particular assets or the Group.

There are certain circumstances where Totally Smiles will be required to 'buy-out' (or procure that a third party buy out) the JV Partner from the Joint Venture Partner Programme, following which the Joint Venture Partner Agreement will terminate and the JV Partner will cease to have any entitlement to profit share payments. The key aspect of the buy-out is the requirement for the JV Partner to be paid a buy-out price based on a pre-determined formula (unless a different price is agreed) (**buy-out price**).

A compulsory buy-out may be triggered by:

- » Totally Smiles where certain events occur such as the JV Partner breaching the Joint Venture Partner Agreement or becoming insolvent, a 'closure event' in relation to the Practice or profit of the relevant Practice being materially lower than the commencing valuation for two consecutive financial years; or
- » the JV Partner where Totally Smiles fails to pay amounts due under the Joint Venture Partner Agreement.

The JV Partner can also generally request a buy-out at any time after the first anniversary of commencement of the Joint Venture Partner Agreement. Totally Smiles will then generally have 12 months to procure a buyer, however (if a buyer is not found) must purchase the interest for the buy-out price subject to having funds available.

The JV Partner can independently find a buyer for its profit share interest under the Joint Venture Partner Programme (at any price), which may proceed subject to consent of Totally Smiles (not to be unreasonably withheld).

JV Partners may also be guaranteed to receive an amount (inclusive of their share of profit of the Practice) which is equivalent to the cash 'buy-in' contribution over the 10 years from the date of the relevant Joint Venture Partner Agreement.

### Variances from standard terms

While the business model described in the Prospectus has generally been applied in a consistent manner, at the Prospectus Date, there is no Joint Venture Partner Agreement in respect of 6 Practices.

The Group has negotiated and agreed certain amendments to the terms of the Joint Venture Partner Agreement on a case by case basis. The majority of amendments are not considered material to the operations, financial position or financial performance of the Group. Totally Smiles has, however, in certain circumstances agreed that it will notify the JV Partner and negotiate a potential sale of the Practice to the JV Partner prior to undertaking a proposed 'closure event' in respect of the Practice, and instigating a compulsory buy-out.

## 10.6. Vouchers

Totally Smiles has entered into an agreement pursuant to which Bartercard Operations Aus Pty Ltd (**Bartercard**) has agreed to purchase vouchers with a redeemable value of approximately \$300,000 (including GST) per month during the period from Listing until 30 June 2019 in exchange for an equivalent amount of Bartercard trade dollars. Vouchers issued will have an expiry date of six months after being sold or issued to a Bartercard member or third party.

Either party may terminate the agreement without cause on three months' notice, and Bartercard may terminate immediately in the event that vouchers issued by Totally Smiles are not honoured or refused. Any vouchers on issue upon termination of the agreement with Bartercard will remain valid.

## 10.7. Convertible Notes

As at the Prospectus Date, the Company has on issue 5,282,000 Convertible Notes with a total face value of \$5,287,000.

All Convertible Notes were issued by the Company at a face value of \$1.00. No interest is payable under the terms of the Convertible Notes.

Under the terms of issue, the Company was required to issue a notice to Noteholders prior to undertaking an initial public offer. Upon receipt of this notice, Noteholders were deemed to have elected to convert their Convertible Notes into Shares (**Conversion Shares**), with the conversion expected to take effect on the Offer Shares Allotment Date.

The Convertible Notes comprise the Tranche 1 Convertible Notes and the Tranche 2 Convertible Notes, which each have differing conversion ratios.

The table below sets out the number of Shares expected to be issued to Noteholders upon Convertible Note Conversion:

NOTEHOLDER	NOTES ON ISSUE AT THE PROSPECTUS DATE	NUMBER OF CONVERSION SHARES ISSUED	% OF SHARES HELD AT COMPLETION OF THE OFFER
<b>Tranche 1 Convertible Notes</b>			
Management Shareholders	330,000	1,650,000	2.85
Other Noteholders	1,007,500	5,037,500	8.70
<b>Total</b>	<b>1,337,500</b>	<b>6,687,500</b>	<b>11.54</b>
<b>Tranche 2 Convertible Notes</b>			
Management Shareholders	45,000	54,000	0.09
Other Noteholders	3,904,500	4,685,400	8.08
<b>Total</b>	<b>3,949,500</b>	<b>4,739,400</b>	<b>8.17</b>

The capital structure of the Company at Completion of the Offer is shown in the table in Section 11.4, which is on the basis that the Convertible Note Conversion occurs on the Offer Shares Allotment Date.

The Conversion Shares are subject to escrow arrangements as set out in Section 11.7.

SECTION 11

# Additional Information



### 11.1. Registration

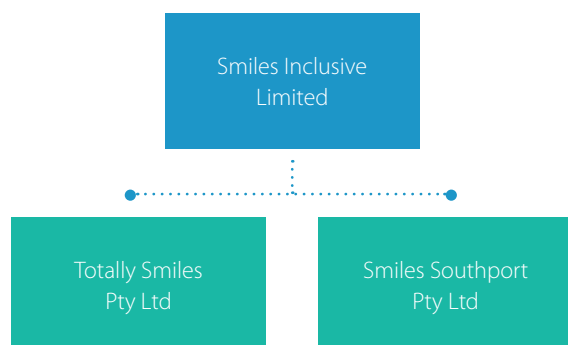
The Company was registered in Queensland on 15 August 2017 as a public company limited by shares.

### 11.2. Tax status

The Group will form a tax consolidated group.

### 11.3. Corporate structure

The following diagram shows the entities in the corporate structure of the Group at the Prospectus Date:



### 11.4. Capital structure

The capital structure of the Company, as at the Prospectus Date and on Completion of the Offer is set out in the table below.

CLASS OF SECURITY	NUMBER AS AT THE DATE OF THE PROSPECTUS	NUMBER AT COMPLETION OF THE OFFER
Shares	11,506,000	57,932,900
Tranche 1 Convertible Notes	1,337,500	0
Tranche 2 Convertible Notes	3,949,500	0

### 11.5. Rights attaching to the Shares

Detailed provisions relating to the rights attaching to the Shares are set out in the Constitution and the Corporations Act. A copy of the Constitution can be inspected during office hours at the registered office of the Company and Shareholders have the right to obtain a copy of the Constitution, free of charge.

The detailed provisions relating to the rights attaching to Shares under the Constitution and the Corporations Act are summarised below.

RIGHT	DETAILS
<b>Fully paid</b>	On issue, the Shares will be fully paid.
<b>Ranking</b>	On issue, the Shares will rank equally with other Shares currently on issue.
<b>Meetings</b>	Each holder of Shares has the right to receive notice of and to attend general meetings of the Company and to receive all financial statements, notices and documents required to be sent to them under the Constitution and the Corporations Act.
<b>Dividends</b>	Each Share has the right to receive dividends, according to the amount paid up on the Share.
<b>Voting rights</b>	Each holder of Shares has the right to vote at a general meeting of Shareholders (whether present in person or by any representative, proxy or attorney) on a show of hands (one vote per Shareholder) and on a poll (one vote per Share on which there is no money due and payable) subject to the rights and restrictions on voting which may attach to or be imposed on Shares (at present there are none).
<b>Entitlement</b>	Each holder of Shares has the right to receive, in kind, the whole or any part of the Company's property on a winding up, subject to priority given to holders of Shares that have not been classified by ASX as 'restricted securities' and the rights of a liquidator to distribute surplus assets of the Company with the consent of members by special resolution.
<b>Transfer / transmission</b>	Subject to the Corporations Act and the ASX Listing Rules, the Shares are fully transferable.
<b>Variation of rights</b>	The rights attaching to Shares may be varied with the approval of Shareholders in general meeting by special resolution.

## 11.6. Directors relevant interests and benefits

### 11.6.1. Directors' and senior management's relevant interest in Securities

Directors are not required to hold Shares. The relevant interests of Directors and Senior Management in Securities (whether held directly or through entities they control), at the Prospectus Date and following Completion of the Offer are set out in the below table. All Shares held by the Board and Senior Management (that are either held personally or through controlled entities) at the Prospectus Date or acquired upon Convertible Note Conversion will be subject to the escrow arrangements described in Section 11.7. Directors and Senior Management may also participate in the Offer.

DIRECTORS AND SENIOR MANAGEMENT	CLASS OF SECURITY	INTERESTS AT THE PROSPECTUS DATE	INTERESTS POST COMPLETION OF THE OFFER	
		SECURITIES <sup>16</sup>	SECURITIES <sup>17</sup>	% OF TOTAL SECURITIES ON COMPLETION OF THE OFFER
David Herlihy	Shares	225,000	487,000	0.84%
	Convertible Notes	60,000	–	–
David Usasz	Shares	50,000	1,212,000	2.09%
	Convertible Notes	240,000	–	–
Mike Timoney	Shares	9,659,000	9,677,000	16.71%
	Convertible Notes	15,000	–	–
Tracy Penn	Shares	150,000	412,000	0.71%
	Convertible Notes	60,000	–	–
Other Senior Management	Shares	306,000	306,000	0.53%
	Convertible Notes	–	–	–

### 11.6.2. Remuneration

#### Non-Executive Director remuneration

Under the Constitution, the Board may decide the total amount paid to each Director as remuneration for their services as a Director of the Company. However, under the Constitution and the ASX Listing Rules, the total amount paid to all Directors for their services (excluding, for these purposes, the salary of any Executive Director) must not exceed in aggregate in any financial year the amount fixed by the Company's general meeting.

This amount has been fixed by the Company at \$800,000 per annum. Annual Directors' fees currently agreed to be paid by the Company to its non-executive Directors are \$108,800 (excluding GST) to David Herlihy as Chairman, and \$84,000 (excluding GST) to David Usasz as Deputy Chairman. The Company intends to identify and appoint a new independent non-executive director following Listing.

#### Remuneration for Executive Directors

The Company has entered into executive employment agreements with Mike Timoney and Tracy Penn.

#### Michael Timoney – Chief Executive Officer and Managing Director

Mike Timoney is employed in the position of Chief Executive Officer and Managing Director of the Group. Mike's total annual fixed remuneration is \$355,875 inclusive of statutory superannuation entitlements. Mike is entitled to standard statutory leave entitlements.

Mike or the Company may terminate his employment agreement by giving six months' notice. The Company intends to elect to make payment in lieu of notice. The Company may also terminate Mike's employment immediately and without notice in certain circumstances, including for committing a material breach of his employment agreement or serious misconduct.

The employment agreement includes a restraint of up to two years after termination of the agreement, during which Mike is restrained from competing with the Group or soliciting (or interfering with the Group's relationship with) any patients, customers, clients or suppliers of the Group.

#### Tracy Penn – Deputy Chief Executive Officer and Executive Director

Tracy Penn is employed in the position of Deputy Chief Executive Officer and Executive Director of the Group. She is entitled to receive total annual fixed remuneration of \$284,700 inclusive of statutory superannuation entitlements. Tracy is entitled to standard statutory leave entitlements.

Tracy or the Company may terminate her employment agreement by giving three months' notice. The Company may elect to make payment in lieu of notice. The Company may also terminate Tracy's employment immediately and without notice in certain circumstances, including for committing a material breach of her employment agreement or serious misconduct.

The employment agreement includes a restraint of up to two years after termination of the agreement, during which Tracy is restrained from competing with the Group or soliciting (or interfering with the Group's relationship with) any patients, customers, clients or suppliers of the Group.

#### Senior Management

The Company's Senior Management are engaged under employment or consultancy agreements which provide for an annual fixed remuneration.

Generally, these arrangements are terminable by the Company or the senior manager on three months' notice.

<sup>16</sup> Convertible Notes are treated for this purpose as a single class of security.

<sup>17</sup> Includes all Shares in which the relevant Director or member of Senior Management has a relevant interest in accordance with the Corporations Act. Third parties may have an economic interest in these Shares.

### 11.6.3. Indemnification of Directors and officers

The Company has entered into deeds of access, insurance and indemnity with each Director which confirm each Director's right of access to certain books and records of the Group for a period of seven years after the Director ceases to hold office. Under these deeds, the Company has agreed to indemnify, to the extent permitted by the Corporations Act, each Director in respect of certain liabilities which the Director may incur as a result of, or by reason of (whether solely or in part), being or acting as an officer of the Company. These liabilities include losses or liabilities incurred by the Director to any other person as an officer of the Company, including legal expenses. The Company has also agreed to maintain in favour of each officer a directors' and officers' policy of insurance for the period that they are officers and for seven years after they cease to act as officers.

### 11.6.4. Employee share scheme

It is anticipated that management and Directors of the Company will be able to participate in an employee share scheme, to be established and conducted in accordance with the Corporations Act and the ASX Listing Rules. The Board believes strongly that alignment of key personnel with the interests of Shareholders is important, and an appropriate employee share scheme achieves that.

The Company intends to seek Shareholder approval prior to the issue of Shares under any employee share scheme.

## 11.7. Escrow arrangements

The Existing Shareholders and Noteholders (together **Escrowed Securityholders**) are expected to enter into restriction deeds with the Company in relation to the Shares held by them at the Prospectus Date and Shares issued as part of Convertible Note Conversion (together **Escrowed Securities**).

These escrow arrangements are expected to be imposed through mandatory restriction agreements entered in accordance with the ASX Listing Rules, on a voluntary basis, or through a combination of these arrangements.

The Company has sought in principle advice from ASX regarding the Shares that may be classified as restricted securities by ASX and accordingly be subject to mandatory escrow.

It is expected that the following escrow arrangements will apply following Completion:

The escrow agreements restrict the ability of Escrowed Securityholders to dispose of, create any security interest in or transfer effective ownership or control of, the Escrowed Securities.

The proposed escrow arrangements will be subject to limited exceptions and allow the Escrowed Securityholders to accept into a successful takeover bid (being a takeover bid that is accepted by at least half of non-Escrowed Securityholders) and do not restrict a potential bidder from building a pre-bid stake (by allowing the Escrowed Securityholders to enter into binding pre-bid acceptance agreements).

## 11.8. Policy for approval of related party transactions

The Company's Audit and Risk Committee is responsible for reviewing and approving all transactions in which the Company is a participant and in which any parties related to the Company, including its executive officers, Directors, beneficial owners of more than 10% of the Company's Shares, immediate family members of the foregoing persons and any other persons whom the Board determines may be considered related parties of the Company, has or will have a direct or indirect material interest.

The Audit and Risk Committee or its chairperson, as the case may be, will only approve those related party transactions that are determined to be in, or are not inconsistent with, the best interests of the Company and its Shareholders, after taking into account all available facts and circumstances as the Audit and Risk Committee or the chairperson determines in good faith to be necessary. Transactions with related parties will also be subject to Shareholder approval to the extent required by the ASX Listing Rules or the Corporations Act.

ESCROWED SECURITYHOLDER	NUMBER OF ESCROWED SECURITIES ON COMPLETION OF THE OFFER	ESCROWED SECURITIES AS A % OF SECURITIES ON ISSUE ON COMPLETION OF THE OFFER	ESCROW PERIOD
Existing Shareholders	11,506,000	19.86	24 months
Noteholders with Tranche 1 Convertible Notes	6,687,500	11.54	Until three business days following the release of the Company's FY19 financial results, or such longer period imposed by ASX
Noteholders issued Shares on conversion of Tranche 2 Convertible Notes	4,739,400	8.17	Until three Business Days following the release of the Company's FY18 financial results, or such longer period imposed by ASX

## 11.9. Interests of experts and advisers

Other than as set out below or elsewhere in this Prospectus, no:

- » Director or proposed director of the Company;
- » person named in this Prospectus and who has performed a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Prospectus;
- » promoter of the Company; or
- » underwriter to the Offer or financial services licensee named in this Prospectus as a financial services licensee involved in the Offer,

holds as at the Prospectus Date, or has held in the two years before the Prospectus Date, an interest in:

- » the formation or promotion of the Company;
- » property acquired or proposed to be acquired by the Company in connection with its formation or promotion or the Offer; or
- » the Offer,

and no amount (whether in cash, Shares or otherwise) has been paid or agreed to be paid, nor has any benefit been given or agreed to be given to any such person for services in connection with the formation or promotion of the Company or the Offer or to any Director or proposed director to induce them to become, or qualify as, a Director.

Morgans Corporate Limited has acted as Lead Manager and Underwriter of the Offer. The Company has paid or agreed to pay an amount of \$1.75 million (plus GST and disbursements) to the Lead Manager and Underwriter in respect of these services on the basis that the gross proceeds of the Offer are \$35 million.

KPMG Transaction Services has acted as the Investigating Accountant and provided the Investigating Accountant's Report in Section 8. The Company has paid or agreed to pay an amount of approximately \$280,000 (plus GST and disbursements) in respect of these and other services provided. KPMG Transaction Services may also be paid additional amounts in accordance with its standard hourly rates.

KPMG has acted as the auditor to the Company. The Company has paid or agreed to pay an amount of approximately \$255,000 (plus GST and disbursements) in respect of these services. KPMG may also be paid additional amounts in accordance with its standard hourly rates.

Talbot Sayer has acted as Australian legal adviser to the Company in connection with the Offer. The Company has paid or agreed to pay an amount of approximately \$145,000 (plus GST and disbursements) in respect of these services. Talbot Sayer may also be paid additional amounts in accordance with its standard hourly rates.

## 11.10. Offer costs

The Company will pay all of the costs associated with the Offer, including Underwriting Fees, legal and Investigating Accountant's fees, independent expert's fees, printing and initial ASX listing fees. The total costs (net of deferred tax assets and recoverable GST) to be paid by the Company have been estimated at \$3.3 million.

## 11.11. Consents

Each of the following parties has given and has not, before the Prospectus Date, withdrawn its written consent to being named in the Prospectus and to the inclusion, in the form and context in which it is included, of any information described below as being included with its consent.

Each of the parties referred to below, to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any part of this Prospectus other than the reference to its name and any statement or report included in this Prospectus with the consent of that party as described below.

### » Lead Manager and Underwriter

Morgans Financial Limited has consented to being named as Lead Manager and Underwriter to the Offer, but do not make any statement in this Prospectus, nor is any statement in this Prospectus based on any statement by the Lead Manager and Underwriter.

### » Investigating Accountant

KPMG Transaction Services has consented to being named in the corporate directory of this Prospectus and to the inclusion of its Investigating Accountant's Report and Financial Services Guide in Section 8 in the form and context in which it appears.

### » Auditor

KPMG has consented to being named in the corporate directory of this Prospectus in its capacity as auditor of Smiles Inclusive, but it does not make any statement in this Prospectus, nor is any statement in this Prospectus based on any statement by KPMG.

### » Legal Adviser

Talbot Sayer (**Talbot Sayer**) has consented to being named in the corporate directory of this Prospectus as Australian legal adviser, but it does not make any statement in this Prospectus, nor is any statement in this Prospectus based on any statement by Talbot Sayer.

### » Share Registry

Link Market Services has consented to being named in the corporate directory and elsewhere in this Prospectus as the Share Registry for the Company. Link Market Services has had no involvement in the preparation of any part of the Prospectus other than being named as Share Registry to the Company. Link Market Services has not authorised or caused the issue of, and expressly disclaims and takes no responsibility for, any part of the Prospectus.

## 11.12. Regulatory relief

The Company has sought a waiver from ASX in respect of quarterly cash flow reporting requirements (ASX Appendix 4C) under ASX Listing Rule 4.7B and certain annual reporting under ASX Listing Rule 4.10.19.

The Company has also sought various in principle advice in respect of its application for Listing.

## 11.13. Legal proceedings

So far as the Directors are aware, other than as described elsewhere in this Prospectus, there are no current or threatened civil litigation, arbitration proceedings or administrative appeals, or criminal or governmental prosecutions of a material nature in which the Company is directly or indirectly concerned which is likely to have a material adverse impact on the business or financial position of the Company.

## 11.14. Overseas distribution

No action has been taken to register or qualify the offer of Offer Shares under this Prospectus, or to otherwise permit a public offering of Offer Shares, in any jurisdiction outside Australia and New Zealand.

### 11.14.1. Offer only made where lawful to do so

The distribution of this Prospectus in jurisdictions outside Australia and New Zealand may be restricted by law. This Prospectus does not constitute an offer in any place in which, or to whom, it would not be lawful to make such an offer. No action has been taken to register or qualify the Offer Shares in any jurisdiction outside Australia and New Zealand. Persons who come into possession of this Prospectus outside Australia and New Zealand should seek advice on and observe any restrictions on acquisition or distribution of the Prospectus. Any failure to comply with these restrictions may constitute a violation of applicable securities laws.

### 11.14.2. United States residents

The Offer Shares being offered pursuant to this Prospectus have not been registered under the US Securities Act and may not be offered or sold in the United States absent registration or an applicable exemption from registration under the US Securities Act and applicable state securities laws. This Prospectus does not constitute an offer to sell, or the solicitation of an offer to buy, nor shall there be any sale of these securities in any state or other jurisdiction in which such offer, solicitation or sale would be unlawful. In addition, any hedging transactions involving these securities may not be conducted unless in compliance with the US Securities Act.

### 11.14.3. Overseas ownership and resale representation

It is your responsibility to ensure compliance with all laws of any country relevant to your Application. The return of a duly completed Application Form will be taken by the Company to constitute a representation and warranty made by you to the Company that there has been no breach of such laws and that all necessary consents and approvals have been obtained.

### 11.14.4. Investor considerations

Before deciding to participate in this Offer, you should consider whether the Shares to be issued are a suitable investment for you. There are general risks associated with any investment in the stock market. The value of Shares listed on ASX may rise or fall depending on a range of factors beyond the control of the Company.

Further information regarding risks of an investment in the Offer Shares is set out in Section 5.

If you are in doubt as to the course you should follow, you should seek advice on the matters contained in this Prospectus from a stockbroker, solicitor, accountant or other professional adviser.

The potential tax effects relating to the Offer will vary between investors. Investors are urged to consider the possible tax consequences of participating in the Offer by consulting a professional tax adviser.

## 11.15. Governing law

This Prospectus and the contracts that arise from the acceptance of Applications under the Offer are governed by the law applicable in Queensland, Australia and each Applicant submits to the non-exclusive jurisdiction of the courts of Queensland, Australia.

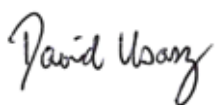
## 11.16. Directors' consent and statement

Other than as set out in this Prospectus, the Directors report that after due enquiries by them there have not been any circumstances that have arisen that have materially affected or will materially affect the assets and liabilities, financial position, profits or losses or prospects of the Company, other than as disclosed in this Prospectus.

Each Director has authorised the issue of this Prospectus and has consented to the lodgement of this Prospectus with ASIC and has not withdrawn that consent.

This Prospectus is signed by a Director of the Company, under section 351 of the Corporations Act on behalf of the Company.

Signed for and on behalf of the Company by:

A handwritten signature in black ink that reads "David Usasz". The signature is written in a cursive, flowing style.

**David Usasz**

Deputy Chairman and  
Independent Non-Executive Director

SECTION 12

# Appendix A: significant accounting policies



## Summary of significant accounting policies

### (a) Basis of preparation

The Financial Information has been prepared in accordance with the recognition and measurement principles prescribed in Australian Accounting Standards adopted by the Australian Accounting Standard Board (AASB), except for:

- » AASB 101 *Presentation of Financial Statements* as the statement of profit and loss presents the combined profit and loss to EBIT level only and does not present interest and taxation income and expenses;
- » AASB 112 *Income Taxes* as taxes are not considered to form part of the business assets and liabilities being acquired. These rights and obligations rest with the individual owners as the business operations are being acquired and not the legal structures;
- » IFRS 10 *Consolidated Financial Statements* as Smiles Inclusive Limited did not exercise control over any of the dental practices during the year ended 30 June 2017.

The accounting policies of the Group for the purpose of the preparation of the Financial Information are summarised below.

The Financial Information is presented in abbreviated form and does not include all of the disclosures, statements and comparative information required by Australian Accounting Standards applicable to annual financial reports prepared in accordance with the *Corporations Act 2001*.

The Financial Information:

- » has been prepared in accordance with the accounting policies outlined below;
- » has been prepared on a historical cost basis; and
- » is presented in Australian dollars.

### Historical cost convention

The Financial Information has been prepared on an accrual basis and are based on historical costs, modified where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

### Critical accounting estimates and judgements

The preparation of the Financial Information requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

### (b) Revenue recognition

Revenue is recognised at the fair value of consideration received or receivable.

Revenue from the rendering of services is recognised once the services have been provided and is measured in accordance with contractual calculation methods and rates.

Revenue from the sale of goods is net of returns, discounts and other allowances, and is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer. Risks and rewards of ownership are considered to pass to the buyer at the time when control of the goods passes to the customer in the case of the supply of non-customised products, or at the time a significant monetary deposit is taken in the case of customised products.

Government subsidies are recognised at their fair value when the dental services have been rendered and when there is reasonable assurance that the subsidy will be received, and the Group will comply with the attached conditions.

Interest income is recognised as it accrues in profit and loss.

### (c) Employee benefits

#### Short-Term Obligations

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. The liabilities are measured at the amounts expected to be paid when the liabilities are settled. The liability for annual leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

#### Long-Term Obligations

The Group's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. The benefit is discounted to determine its present value. Re-measurements are recognised in profit or loss in the period in which they arise.

The obligations are presented as a current liability in the balance sheet if the Group does not have an unconditional right to defer settlement for at least 12 months after the reporting date, regardless of when the actual settlement is expected to occur.

### (d) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

### (e) Receivables

Receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for impairment if applicable. Trade receivables are generally due for settlement within 30 days.

### (f) Property, plant and equipment

Items of property, plant and equipment are measured at cost less depreciation, amortisation and accumulated impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit and loss during the reporting period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate the costs of assets, net of their residual values, over their estimated useful lives, as follows:

- » leasehold improvements – shorter of term of lease or 7 years
- » plant and equipment – 7 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (refer to note 1(j)).

## (g) Intangible assets

### Rights and Licences

Contractual rights and licences have a finite useful life and are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of the rights and licences over their estimated useful lives.

### Website & Software

Costs associated with maintaining websites and software programmes are recognised as an expense as incurred.

Development costs that are directly attributable to the design and testing of identifiable and unique websites and software products controlled by the group are recognised as intangible assets when the following criteria are met:

- » It is technically feasible to complete the website or software so that it will be available for use
- » Management intends to complete the website or software and use or sell it
- » There is an ability to use or sell the website or software
- » It can be demonstrated how the website or software will generate probable future economic benefits
- » Adequate technical, financial and other resources to complete the development and to use or sell the website or software are available; and
- » The expenditure attributable to the website and software during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the website or software include employee costs and an appropriate portion of relevant overheads.

Amortisation is calculated using the straight-line method to allocate the costs of website and software assets, net of their residual values, over their estimated useful lives, as follows:

- » software – 3-5 years
- » websites – 3-5 years

The residual values and useful lives of website and software assets are reviewed, and adjusted if appropriate, at the end of each reporting period.

## (h) Payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

## (i) Borrowings

Borrowings are measured at amortised cost. Borrowing costs are expensed as incurred.

## (j) Impairment of assets

### Financial assets

Collectability of financial assets, such as trade receivables, is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for impairment of trade receivables is raised when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 60 days overdue) are considered indicators that the trade receivable may be impaired.

The Group considers evidence of impairment for these assets at both an individual asset and a collective level. All individually significant assets are individually assessed for impairment. Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet individually identified. Assets that are not individually significant are collectively assessed for impairment. Collective assessment is carried out by grouping together assets with similar risk characteristics.

In assessing collective impairment, the Group uses historical information on the timing of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested by historical trends.

The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in profit and loss within other expenses. When a receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in profit and loss.

### Non-financial assets

Non-financial assets, such as goodwill and intangible assets that have an indefinite useful life, are not subject to amortisation and are tested annually for impairment. Other assets, including those that are subject to depreciation or amortisation, are reviewed at each balance date to determine whether there is any indication of impairment. If such an indicator exists, then the asset's recoverable amount is estimated. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows which are largely independent of the cash flows from other assets or groups of assets (cash-generating units). The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount. Impairment losses are recognised in profit or loss.

Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date. Cash inflows considered for the purposes of impairment testing are discounted to present value.

Significant judgement has been used in testing assets for impairment and in determining the amounts recognised as impairment losses at reporting date.

#### **(k) Provisions**

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

##### **Make Good Provision**

Dental practices are generally required to restore most leased premises to their original condition at the end of their respective lease terms. A provision has been recognised for the present value of the estimated expenditure required to remove any leasehold improvements and repair any associated damage. These costs have been capitalised as part of the cost of leasehold improvements and are amortised over the shorter of the term of the lease or the useful life of the assets.

##### **Onerous Contracts**

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

#### **(l) Leases**

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease inception at the lower of the fair value of the leased asset and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in borrowings. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate of the finance balance outstanding. The interest element of the finance cost is charged to the profit and loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the asset's useful life and the lease term.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases. Payments made under operating leases, net of incentives received from the lessor, are charged to profit and loss on a straight-line basis over the period of the lease.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liabilities for at least 12 months after the reporting period.

#### **(m) Income tax**

The income tax expense for the period is the notional tax payable on the FY2017 taxable income based on operating results of the dental practice being acquired, regardless of the business structure utilised and the effective tax rates achieved. Income tax expense is adjusted for changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in Australia.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated/aggregated financial statements. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised, or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences only if it is probable that future taxable amounts will be available to utilise those temporary differences. A deferred tax asset is not recognised for tax losses of dental practices to be acquired.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and liabilities are offset where the entity has a legally enforceable right to offset and intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

#### **(n) Goods and Services Tax (GST)**

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of expense. Receivables and payables in the balance sheet are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

SECTION 13

# Glossary



In this document:

<b>AASB</b>	means the Australian Accounting Standards Board.
<b>Acquisition Agreements</b>	means the agreements pursuant to which Totally Smiles has agreed to acquire the Practices, as detailed in Section 10.3.
<b>Acquisition Facility</b>	has the meaning given to it in Section 10.2.
<b>Acquisitions</b>	means the acquisition of the Practices, under the terms of the Acquisition Agreements, as detailed in Section 10.3.
<b>AEST</b>	means Australian Eastern Standard Time.
<b>AFSL</b>	means Australian Financial Services Licence.
<b>Aggregated Audited Accounts</b>	has the meaning given to it in Section 4.2.3.
<b>AHPRA</b>	means the Australian Health Practitioner Regulation Agency.
<b>Applicant</b>	means a person who submits a valid Application Form and required Application Monies pursuant to this Prospectus.
<b>Application</b>	means an application for Offer Shares under this Prospectus.
<b>Application Amount</b>	means the amount required to be submitted with an Application, being the Issue Price multiplied by the number of Offer Shares applied for.
<b>Application Form</b>	means the application form attached to or accompanying this Prospectus for investors to apply for Offer Shares under the Offer.
<b>Application Monies</b>	means money submitted by Applicants pursuant to their Application.
<b>ASIC</b>	means the Australian Securities and Investments Commission.
<b>ASX</b>	means ASX Limited ABN 98 008 624 691 or the market it operates, as the context requires.
<b>ASX Corporate Governance Principles</b>	means the corporate governance principles and recommendations of the ASX Corporate Governance Council as at the Prospectus Date.
<b>ASX Listing Rules</b>	means the official Listing Rules of ASX as amended or waived from time to time.
<b>Audited Practices</b>	has the meaning given to it in Section 4.2.3.
<b>Bartercard</b>	means Bartercard Operations Aus Pty Ltd ACN 168 816 135.
<b>Board</b>	means the board of Directors of the Company.
<b>Broker</b>	means any ASX participating organisation selected by the Lead Manager and Underwriter to participate in the Broker Firm Offer.
<b>Broker Firm Offer</b>	means the offer of Shares under this Prospectus to eligible Australian and New Zealand residents who are sophisticated or professional investors (within the meaning of sections 708(8) and 708(11) of the Corporations Act, respectively), or, following lodgement of this Prospectus, to Australian and New Zealand resident investors who are not Institutional Investors and have receive a firm allocation from their Broker.
<b>Clinical Advisory Committee or CAC</b>	means the Clinical Advisory Committee proposed to be established by the Group, as described in Section 3.7.5.
<b>CGT</b>	means capital gains tax.
<b>Company or Smiles Inclusive</b>	means Smiles Inclusive Limited ACN 621 105 824.
<b>Completion or Completion of the Offer</b>	means the completion of the Offer and Convertible Note Conversion, being the date upon which Offer Shares are issued to Successful Applicants in accordance with the terms of the Offer and Shares are issued to Noteholders in accordance with the Convertible Notes.
<b>Constitution</b>	means the constitution of the Company.
<b>Conversion Shares</b>	means the Shares issued to Noteholders upon Convertible Note Conversion.
<b>Convertible Note Conversion</b>	means the full conversion of the Convertible Notes to Shares to be completed on the Offer Shares Allotment Date in the manner set out in Section 10.7.

<b>Convertible Notes</b>	means the Tranche 1 Convertible Notes and the Tranche 2 Convertible Notes, the details of which are set out in Section 10.7.
<b>Corporations Act</b>	means the <i>Corporations Act 2001</i> (Cth).
<b>Dentist Participation Offer</b>	means the priority offer being extended to Eligible Dental Partners.
<b>Dentist Participation Offer Applicants</b>	means an applicant under the Dentist Participation Offer.
<b>Dentist Participation Offer Application Form</b>	means the Application Form to be completed by Dentist Participation Offer Applicants in respect of the Dentist Participation Offer, which may include an application for an Interim Acquisition Loan.
<b>Directors</b>	means the directors of the Company as at the Prospectus Date.
<b>EBIT</b>	means earnings before interest and tax.
<b>EBITDA</b>	means earnings before interest, tax, depreciation and amortisation.
<b>Eligible Dental Partners</b>	means vendors under the Acquisition Agreements (or their nominees approved by the Board) who are determined by the Company to be eligible to participate in the Dentist Participation Offer.
<b>Escrowed Securities</b>	means the Shares of the Escrowed Securityholders that are subject to the mandatory or voluntary escrow arrangements detailed in Section 11.7.
<b>Escrowed Securityholders</b>	means the Existing Shareholders and Noteholders as detailed in Section 11.7.
<b>Executive Director</b>	means the executive Directors, which at the Prospectus Date are Mike Timoney and Tracy Penn.
<b>Existing Shareholders</b>	means the owners of Shares as at the Prospectus Date (including Management Shareholders).
<b>Exposure Period</b>	means the seven day period after the date of lodgement of this Prospectus with ASIC (as extended by ASIC (if applicable)).
<b>FASA or Facilities and Services Agreement</b>	means the agreements between Totally Smiles and individual dentists (and/or their service entities) in relation to the facilities and services provided to the dentists at dental practices operated by the Group, as described in Section 10.4.
<b>Financier</b>	means the financier under the Finance Facility, as set out in Section 10.2.
<b>Finance Facility</b>	means the debt facilities available to the Company, as described in Section 10.2.
<b>Financial Information</b>	has the meaning given to it in Section 4.1.1.
<b>Financial Services Guide</b>	means the financial services guide accompanying the Investigating Accountant's Report.
<b>Forecast Financial Information</b>	has the meaning given to it in Section 4.1.1.
<b>FY17</b>	means the financial year ended 30 June 2017.
<b>FY18</b>	means the financial year ending 30 June 2018.
<b>FY19</b>	means the financial year ending 30 June 2019.
<b>Group</b>	means the Company and its Subsidiaries, including, at the Prospectus Date, Totally Smiles and Smiles Southport.
<b>GST</b>	has the meaning given to that term in Section 195 – 1 of the <i>A New Tax System (Goods and Services Tax) Act 1999</i> as amended.
<b>Guarantor</b>	has the meaning given to it in Section 10.2.
<b>Historical Financial Information</b>	has the meaning given to it in Section 4.1.1.
<b>Indemnified Parties</b>	has the meaning given to it in Section 10.1.
<b>Institutional Investors</b>	means an Applicant to whom offers or invitations in respect of securities can be made without the need for a lodged prospectus (or other formality, other than a formality which the Company is willing to comply with), including in Australia persons to whom offers or invitations can be made without the need for a lodged prospectus under section 708 of the Corporations Act (disregarding section 708AA).
<b>Institutional Offer</b>	means the invitation to bid for Shares made to Institutional Investors under this Prospectus to acquire Shares as described in Section 7.12.
<b>Interim Acquisition Loans</b>	means the short-term, non-interest bearing loans to be offered by the Company to fund the Application Price for subscriptions for Offer Shares under the Dentist Participation Offer.
<b>Interim Financial Report</b>	has the meaning given to it in Section 4.2.2.
<b>Investigating Accountant</b>	means KPMG Transaction Services.

<b>Investigating Accountant's Report</b>	means the investigating accountant's report provided by the Investigating Accountant and included in Section 8.
<b>Issue Price</b>	means the price per Offer Share (being \$1.00 per Offer Shares).
<b>Joint Venture Partner Agreement</b>	means the agreement between the JV Partner and the Group setting out the terms of the JV Partner's participation in the Joint Venture Partner Programme, as detailed in Section 10.5.
<b>Joint Venture Partner Programme</b>	means the profit share programme entitling participants to share in the profit of a particular practice, as detailed in Section 10.5.
<b>JV Partner</b>	means the participants in the Joint Venture Partner Programme.
<b>KPMG Transaction Services</b>	means KPMG Transaction Services, a division of KPMG Financial Advisory Services (Australia) Pty Ltd (ABN 43 007 363 215).
<b>KPMG</b>	means the division of the KPMG Australian Partnership responsible for audit services.
<b>Lead Manager and Underwriter</b>	means Morgans Corporate Limited (AFSL 23541).
<b>Link Market Services</b>	means Link Market Services Limited ABN 54 083 214 537.
<b>Listing</b>	means the admission of the Company to the Official List, quotation of the Shares on the ASX and commencement of unconditional trading of the Shares on ASX.
<b>Management Shareholders</b>	means Shareholders who are Directors or Senior Management, or who hold Shares in which Directors or Senior Management have a relevant interest.
<b>New Shareholders</b>	means persons acquiring Shares under the Offer (excluding any Existing Shareholders who acquire Shares under the Offer).
<b>Non-Executive Directors</b>	means the non-executive Directors, which at the Prospectus Date are David Usasz and David Herlihy.
<b>Noteholders</b>	means the holders of the Convertible Notes.
<b>NPAT</b>	means net profit after tax.
<b>Offer</b>	means the offer of 35 million Offer Shares under this Prospectus to raise \$35 million, comprising the Dentist Participation Offer, the Broker Firm Offer and the Institutional Offer.
<b>Offer Closing Date</b>	means: (a) for the Dentist Participation Offer, 6 April 2018; and (b) for the Broker Firm Offer and the Institutional Offer, 11 April 2018.
<b>Offer Information Line</b>	means 1800 990 479 (within Australia) or +61 1800 990 479 (outside Australia).
<b>Offer Opening Date</b>	means 21 March 2018.
<b>Offer Period</b>	means the period during which investors may subscribe for Offer Shares under the Offer which commences on the Offer Opening Date and ends on the Offer Closing Date.
<b>Offer Settlement Date</b>	means 12 April 2018.
<b>Offer Shares</b>	means the Shares to be issued under the Offer.
<b>Offer Shares Allotment Date</b>	means the date on which the Offer Shares are allotted and issued under the Offer, which is 17 April 2018.
<b>Official List</b>	means the official list of the ASX.
<b>Practices</b>	means the 52 dental practices located in Queensland, New South Wales, Victoria, the Australian Capital Territory, South Australia and Western Australia proposed to be acquired by Totally Smiles. <sup>18</sup>
<b>Pro Forma Forecast Cash Flows</b>	has the meaning given to it in Section 4.1.1.
<b>Pro Forma Forecast Financial Information</b>	has the meaning given to it in Section 4.1.1.
<b>Pro Forma Forecast Income Statement</b>	has the meaning given to it in Section 4.1.1.
<b>Pro Forma Historical Balance Sheet</b>	has the meaning given to it in Section 4.1.1.
<b>Pro Forma Historical Cash Flows</b>	has the meaning given to it in Section 4.1.1.
<b>Pro Forma Historical Financial Information</b>	has the meaning given to it in Section 4.1.1.

<sup>18</sup> Number of practices may not equate to the number of fixed premises. A single practice may have multiple outlets. Figure includes one mobile practice.

<b>Pro Forma Historical Income Statement</b>	has the meaning given to it in Section 4.1.1.
<b>Prospectus</b>	means this document (including the electronic form of this Prospectus) and any supplementary or replacement prospectus in relation to this document.
<b>Prospectus Date</b>	means 13 March 2018.
<b>Section</b>	means a section of this Prospectus.
<b>Securities</b>	means Shares and Convertible Notes.
<b>Senior Management</b>	means those members of the senior management team of Smiles Inclusive described in Section 6.2.
<b>SFA</b>	means the Securities and Futures Act, Chapter 289 of Singapore.
<b>SFO</b>	means the Securities and Futures Ordinance (Cap. 571) of the Laws of Hong Kong.
<b>Share</b>	means a fully paid ordinary share in the capital of the Company.
<b>Shareholder</b>	means a registered holder of a Share.
<b>Share Registry</b>	means Link Market Services.
<b>Smiles Southport</b>	means Smiles Southport Pty Ltd ACN 617 686 147, a wholly owned subsidiary of the Company.
<b>Statutory Forecast Cash Flows</b>	has the meaning given to it in Section 4.1.1.
<b>Statutory Forecast Financial Information</b>	has the meaning given to it in Section 4.1.1.
<b>Statutory Forecast Income Statement</b>	has the meaning given to it in Section 4.1.1.
<b>Statutory Historical Financial Information</b>	has the meaning given to it in Section 4.1.1.
<b>Subsidiaries</b>	has the meaning given to it in the Corporations Act.
<b>Successful Applicants</b>	means an Applicant who is issued Shares under the Offer.
<b>Totally Smiles</b>	means as context requires, Totally Smiles Pty Ltd ACN 621 283 798, a wholly owned subsidiary of the Company, or the brand, Totally Smiles.
<b>Tranche 1 Convertible Notes</b>	means convertible notes issued by the Company in relation to investment made in the Group in its initial early stage seed capital raising, details of which are set out in Section 10.7.
<b>Tranche 2 Convertible Notes</b>	means convertible notes issued by the Company in relation to investment made in the Group in its second round seed capital raising, details of which are set out in Section 10.7.
<b>Un-audited Practices</b>	has the meaning given to it in Section 4.2.3.
<b>Underwriting Agreement</b>	means the agreement between the Company and the Lead Manager and Underwriter in respect of the Offer, a summary of which is included in Section 10.1.
<b>Underwriting Fee</b>	means the fees payable to the Lead Manager and Underwriter under the Underwriting Agreement and Section 7.13.
<b>US Securities Act</b>	means the <i>US Securities Act of 1933</i> (as amended).
<b>Working Capital Facility</b>	has the meaning given to it in Section 10.2.

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# CORPORATE DIRECTORY

## Company

Smiles Inclusive Limited  
[www.smilesinc.com.au](http://www.smilesinc.com.au)

## Directors

David Herlihy  
David Usasz  
Michael Timoney  
Tracy Penn

## Company Secretary

Paul Innes

## Lead Manager and Underwriter

Morgans Corporate Limited  
Level 29, 123 Eagle Street  
Brisbane QLD 4000  
[www.morgans.com.au](http://www.morgans.com.au)

## Share Registry

Link Market Services Limited  
Level 21, 10 Eagle Street  
Brisbane QLD 4000  
[www.linkmarketservices.com.au](http://www.linkmarketservices.com.au)

## Auditor

KPMG  
Level 11, Corporate Centre One  
Corner Bundall Road and Slatyer Avenue  
Bundall QLD 4217  
[www.kpmg.com.au](http://www.kpmg.com.au)

## Investigating Accountant

KPMG Transaction Services, a division of KPMG Financial Advisory Services (Australia) Pty Ltd (ABN 43 007 363 215)  
Level 16, 71 Eagle Street  
Brisbane QLD 4000  
[www.kpmg.com.au](http://www.kpmg.com.au)

## Legal Adviser

Talbot Sayer  
Level 11, 241 Adelaide Street  
Brisbane QLD 4000  
[www.talbotsayer.com.au](http://www.talbotsayer.com.au)



**Smiles**<sup>Inclusive</sup>

*Together We Smile*