Totally Smiles
DENTAL GROUP
Together We Smile

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A division of Smiles Inclusive Limited

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ASX Announcement
30 July 2018

Business Update, Cashflow and Earnings Guidance

Highlights

- ***Net practice revenue in line with expectations***
- ***Practice margins of 31% in line with forecast statutory margins of 31%***
- ***Integration progress ahead of 120 day target***
- ***Growing acquisition pipeline***
- ***FY19 NPAT guidance of at least $6.0 million***
- ***Cashflow in line with expectations***

FY18 Earnings Guidance

Smiles Inclusive Limited (ASX: **SIL**) is pleased to announce that it expects to report EBITDA (excluding acquisition costs) of $(1,000) for the year ended 30 June 2018, which is ahead of the prospectus statutory forecast of $(161,000).

A summary of the financial results is provided below.

	Prospectus statutory forecast	*Change in pro forma based on revised settlement dates(1)*	Restated prospectus statutory forecast	*Other variances (2 & 3)*	Year ended 30 June 2018
	$'000	$'000	$'000	*$'000*	$'000
Net practice revenue	10,340	*(3,447)*	6,893	*(839)*	6,054
Practice EBITDA	**3,222**	***(1,089)***	**2,133**	***(266)***	***1,867***
Corporate & Integration Costs	(3,383)	*1,127*	(2,256)	*387*	(1,868)
EBITDA	***(161)***	***38***	***(123)***	***122***	***(1)***

Net practice revenue is in line with expectations after considering the following factors.

1. $3.4 million reduction as a result of timing of the acquisitions made throughout FY2018. The prospectus assumed that settlement of the initial portfolio had occurred in full on 1 April 2018. Actual settlement of the initial portfolio commenced on 20 April 2018 and completed on 29 May 2018. Smiles settled 50 of the initial 52 practices, with two replacement practices brought forward from the acquisition pipeline to ensure completion on 52 practices as per the prospectus.
2. $0.6 million recognised as deferred revenue as a result of timing of third party contracted dental services.
3. $0.2 million impact due to minor disruption in the process of consolidating a small number of practices within the initial portfolio, with management taking the opportunity to bring forward a number of planned initiatives on these practices.

The practice EBITDA of $1.9 million for FY2018 was in line with pro forma and statutory expectations, with practice EBITDA margins maintained at 31%.

The financial results are subject to completion of external audit review and will be released to the market on 22 August 2018.

Business Update

Integration Status

The combination of Smiles' unique business model, the dental industry experience of the management team and the continued involvement and economic interest of the joint venture partners, resulted in a relatively smooth integration process. This led to lower than anticipated corporate overhead (inclusive of integration) costs.

As at the date of this report, the company is ahead of its 120-day integration target with key integration tasks substantially completed. Systems integration across the portfolio has been completed with personnel integration 98% complete.

Acquisition Pipeline

Since listing, the company has focused on execution of the integration plan rather than pursuing acquisitions. However, the acquisition pipeline has continued to grow in this period through positive feedback and referrals from the company's joint venture network as well as a number of direct approaches. Subject to negotiating acceptable terms, Smiles expects to complete a number of accretive acquisitions in 1H FY2019.

Cashflow

At the end of June 2018, Smiles held cash reserves of $2.0 million with a further $0.2 million on deposit with maturity greater than three months. The company has available undrawn debt capacity of $24.6 million at 30 June 2018 including acquisition capacity of $19.3 million, working capital facility of $3.5 million and ancillary facilities of $1.8 million.

Net cash flows for the year ended 30 June 2018 were $2.3 million less than prospectus statutory forecast due to a number of factors including:

- a lower level of drawn debt as the company benefited from the extraction of working capital; and
- Higher than anticipated acquisition costs as impacted by changes in the portfolio mix and finalisation of duties on the portfolio.

Other key items of note include:

- Higher than anticipated benefits from working capital as the company works to optimise its working capital structure;
- Net movements in working capital have been positively impacted by pay cycles and the consolidation of supplier payments across the portfolio;

- Capital expenditure costs include $0.9 million of additional assets acquired as part of the business acquisitions and are classified as operating cashflows for the purposes of external reporting in accordance with disclosure requirements; and
- Acquisition transaction costs related to the acquisition of the 52 practices have been classified as operating cashflows for the purposes of external reporting in accordance with disclosure requirements.

A summary of the cashflow is provided below.

$'000	Year ended 30 June 2018	Prospectus Statutory Forecast FY2018	Variance
EBITDA	**(1)**	**(161)**	**160**
Net movement in working capital	3,022	657	2,365
Operating cash flow before financing, taxation, capital expenditure and acquisition costs	**3,021**	**496**	**2,525**
Capital expenditure (net)	(1,575)	(600)	(975)
Acquisition Costs	(4,248)	-	(4,248)
Cash flow before financing and taxation	**(2,802)**	**(104)**	**(2,698)**
Proceeds from Offer	35,000	35,000	-
Proceeds from Debt Drawdown	11,175	13,000	(1,825)
Acquisition payments	(41,831)	(43,831)	2,000
Capitalised offer costs	(3,036)	(3,533)	497
Net Proceeds from Convertible Notes	3,950	4,085	(135)
Corporate interest	(2)	(84)	82
Other	(200)	-	(200)
Net cash flow before taxation and dividends	**2,254**	**4,533**	**(2,279)**
Income tax paid	-	-	-
Net cash flow before dividends	**2,254**	**4,533**	**(2,279)**
Dividend	-	-	-
Net cash flow	**2,254**	**4,533**	**(2,279)**

FY19 Earnings Guidance

Smiles enter FY2019 well positioned with the integration of the initial practice portfolio substantially complete.

With the benefit of observing practice trading performance since IPO, the Directors are pleased to announce FY2019 NPAT guidance of at least $6.0 million.

The forecast excludes any benefits that may result from accretive acquisitions that could occur in FY2019, which would be funded from acquisition debt facilities with undrawn capacity of $19.3 million.

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