ASX Announcement
31 October 2018

Cashflow and business update

Smiles Inclusive Limited (ASX: **SIL**) has released its Appendix 4C quarterly cashflow report and provides the following update on trading for the three months to September 2018.

Managing Director, Mike Timoney said, “We are pleased with the progress of practice integration and excited about the opportunities to roll-out national marketing for Totally Smiles and grow patient numbers across the network.

“Our unique partnership business model continues to be well-received by prospective joint venture partners, and we are making good progress with a number of acquisition targets.”

Cashflow report

Net cash out flows for the period ended 30 September 2018 were $1.7 million with the following key movements:

- A reduced working capital requirement, including $1.5 million in trade & other payables due to consolidation of accounts payable from individual practices;
- Stamp duty payments on acquisitions of circa $0.9 million included in operating cash outflows; and
- Integration costs of $1.9 million included in operating cash outflows.

Cash inflows of $11.6 million were below expectation due mainly to isolated issues at a small number of joint venture partner practices including:

- An entity related to a joint venture partner was fined for administering radiation without a user licence in 2016, well before the acquisition of the practice by Smiles. The proceedings were not disclosed prior to completion, and have had a negative impact on the revenues of the business through the loss of patients. Smiles has obtained legal advice and commenced a claim against the vendor of the relevant practice in respect of multiple breaches of the acquisition agreement.
- Smiles was saddened by the sudden and tragic death of the lead practitioner at one of its Sydney practices in July 2018. This resulted in temporary closure of the practice, and the loss of a number of patients due to the specialist nature of the work performed.

Pleasingly, revenue and cash inflows have increased in October as a result of a number of initiatives that Smiles has undertaken.

Cash outflows from operations of $15.2 million included:

- $0.9 million in stamp duty costs associated with the acquisition of the initial portfolio;
- $1.9 million in year to date integration costs. Costs associated with integration of 52 practices acquired from 20 April 2018 were substantially finalised in the September quarter 2018. These costs include but are not limited to the finalisation of ICT

requirements, finance and operational systems and processes, roll-out and standardisation; and
- The reduced working capital requirement noted above.

A number of these outflows were one-off items and Smiles expects reduced cash outflows from operations (excluding acquisitions) in the current quarter.

At the end of September 2018, Smiles held cash reserves of $0.4 million with a further $0.2 million on deposit. The Company had available undrawn debt capacity of $22.7 million under its working capital and acquisition facilities.

Business Update

Acquisition Pipeline

The Company has made significant progress on a number of acquisition targets and has additional growth potential in its acquisition pipeline. The Company expects to provide an update on growth opportunities before the end of November.

Branding and marketing

External branding is the final major integration process and once completed, will enhance the patient experience and allow for the commencement of national marketing campaigns to drive growth in patient numbers over the remainder of FY19 and into the future. This process is 65% completed across the practice network and will be completed by 21 November.

The Company's new website launched in early October 2018 with online booking feature now available at all locations.

Afterpay

The Company has recently completed its Afterpay trial with integration testing completed and successful. A national campaign is scheduled for roll-out in the first week of November 2018.

A further business update will be provided by the end of November.
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