



smiles<sup>®</sup>  
inclusive

# ANNUAL GENERAL MEETING PRESENTATION

21 NOVEMBER 2018



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# OVERVIEW

- Introduction
- CEO's address
- Questions
- Business of the meeting
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  - Item 3: Election of directors
  - Item 4: Appointment of company auditor
  - Item 5: Employee share plan (withdrawn)
- Appendix

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# INTRODUCTION

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# CEO'S ADDRESS

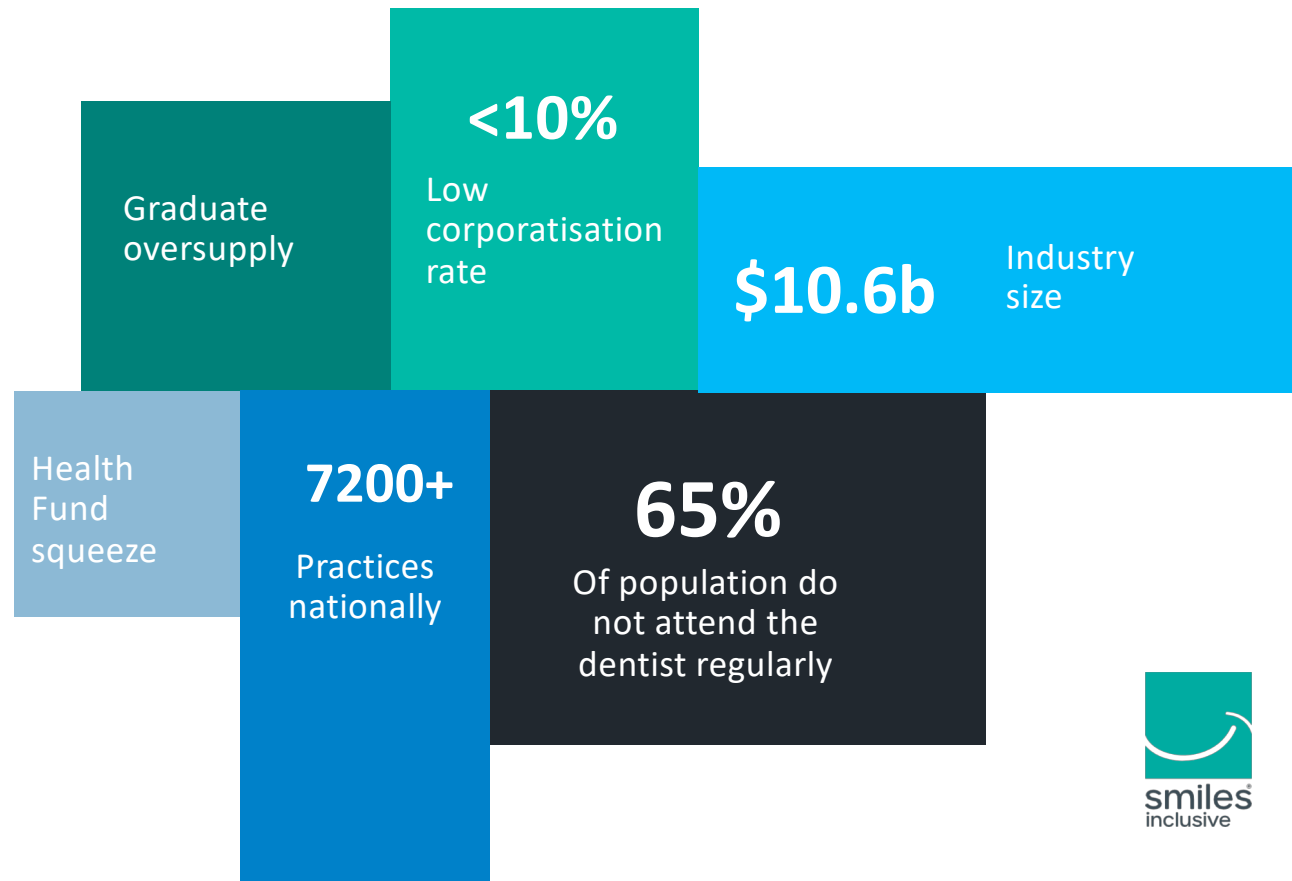
# COMMERCIAL OVERVIEW

A lot has been achieved since listing with the acquisition of 52 practices and a further 3 acquired recently. Disappointingly a number of integration and operational matters have impacted trading. Key operational shortcomings have been identified and are being addressed

- With a dental industry that remains fragmented Smiles Inc ambitiously set out to disrupt the industry through a unique business model that aligns the aspirations of practice owners to the corporate objectives of the development of national brand whilst increasing shareholder value
- In just over 12 months the Group:
  - Received interest from over 300 parties
  - Conducted due diligence on over 100 potential vendors
  - Successfully completed 52 acquisitions as part of the initial portfolio described in the prospectus
  - Completed a further 3 acquisitions
- Core elements of integration were undertaken as promised, however the impact of a number of operational matters have impacted 1<sup>st</sup> quarter trading:
  - Non disclosure of legal proceeding by vendor
  - Unexpected deaths of lead practitioner and key business manager
  - Delay in physical and digital branding
  - Failure to have appropriate practitioner monitoring systems in place
  - Underestimation of change management requirements of systems upgrades and implementation
  - Failure to have an appropriate rostering solution in place
  - Additional integration and stamp duty costs
- Smiles Inc recognises that with a focus on integration of practices, it was slow to react and put in place remedial action for some of these events
- Smiles Inc has strengthened business foundations through insights from integrating 52 practices since listing in April 2018
- Key operational shortcomings have been identified and addressed
- The strengthening of the initial foundations and the mitigation of these risks now allow Smiles Inc to significantly improve performance
- Importantly Smiles Inc has built an infrastructure capable of handling future acquisitions and has available funding capacity to acquire a potential \$35m in gross practice revenue

# INDUSTRY DYNAMICS

Dynamics remain consistent since model conception with industry ripe for disruption

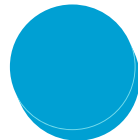


# THE SMILES MODEL

The heart of the model is the alignment of our joint venture partners' growth aspirations with the corporate objective of the development of a successful national brand whilst increasing shareholder value

## Local partners, skin in the game

We provide a nationwide, personal alternative to other corporate models. The performance of the practice is driven locally with shared success.



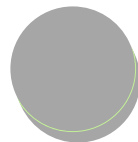
## Provides diverse practitioner base

Our model creates opportunities for lead practitioners of diverse age demographics.



## Creating efficiencies through scale

Our joint venture partners leverage the benefits of a corporate structure with shared administrative functions. This lets them focus on their patients and growing their business.



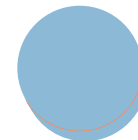
## Nurturing entrepreneurship

The model respects the individual talents and expertise of our practitioners, and encourages collaboration across the group to nurture the entrepreneurial spirit of our partners.



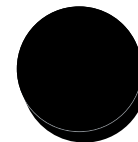
## Recognise the practitioners' skill

The model allows practitioners to focus more on delivery of quality dentistry.



## Natural forming clusters

The natural formation of clusters will allow for the development of further synergies including in-house referrals.





# INTEGRATION COMPLETE

The focus on delivery of a connected network of practices across the first 120 days from acquisition has provided greater visibility into the strengths and weaknesses of each of our acquired practices

## System Elements

- ✓ Practice clinical and technology audit completed. Hardware deployed and installed
- ✓ 100% of acquired practices cut-over to core applications
- ✓ Digital platforms consolidated and on line booking platforms active
- ✓ Provider Digital Access visible across all practices
- ✓ Consumable purchasing portal developed and rolled out

## Operational Elements

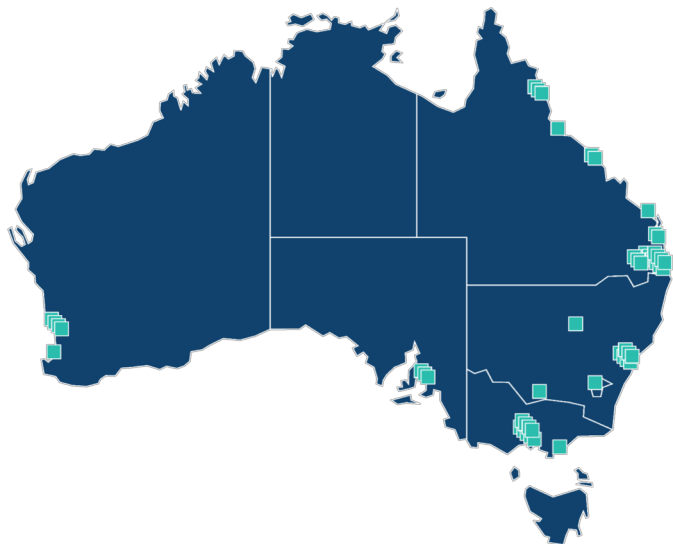
- ✓ Clinical upgrades commenced. Standard operating procedures rolled out
- ✓ Safety audits completed
- ✓ Notifiable Data Breach training and response plan completed
- ✓ Supplier account consolidation commenced
- ✓ Patient communications completed

# HURDLES AND CHALLENGES

A number of specific issues identified.....

Event or Process	Remedial Action
Underestimated impact of delays in physical branding and consolidation of digital footprint	Digital footprint completed October 2018. Physical branding completed November 2018. National campaigns rolled out November 2018
Failure to have in place appropriate controls for unscheduled leave	Rolling three month visibility tool introduced. Contract addendums instigated
Failed to educate our JVP's on management information and financial systems	Training gaps identified. Additional training commenced
Non disclosure of legal proceeding by vendor resulting in significant revenue loss. Unexpected death of key practice manager	Practice closed and operational review underway. Bookings recommence in February 2019
Unexpected death of specialist lead practitioner	Locums engaged. Working with Estate through probate. Rebadging as general practice in a premium location
Key suppliers operationally underprepared for initial portfolio settlement	Supplier systems and processes updated. Request for clear change management plans from future suppliers
Unanticipated delay in gift voucher redemptions	Rolled out communication reminders to voucher holders

# 52 PRACTICES ACQUIRED IN INITIAL PORTFOLIO



Smiles Inc conducted due diligence, acquired and integrated 52 practices nationally during FY18

The majority of regions are performing at or above expectations, while some regional locations have performed below expectations.

Status	Practices	Performance
Performing at or above expectations	39	◆
Underperforming through Q1	11	◆
Major issues	2	◆
Total	52	

# WHAT HAS BEEN LEARNT?

The focus on achieving integration across 52 practices within 120 days identified areas for improvement in the program. These learnings will assist in derisking future acquisitions and drive improved performance from existing practices.

## Acquisition and integration

- Reassessed bundling of practices and integrating in batches
- Integration requirements reduced to reflect reduced scale

## Operational visibility

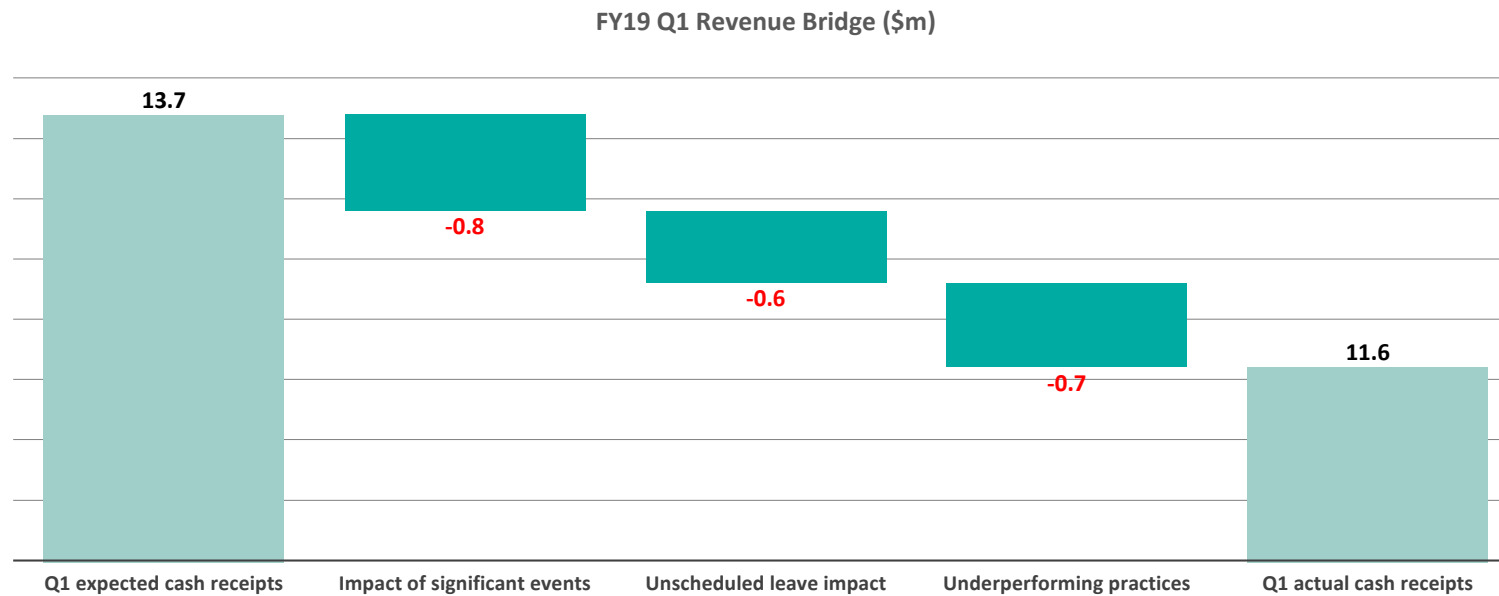
- Lack of visibility on key drivers impacted initial performance – business managers (commenced October 18) taking ownership of operational performance of existing practices

## Clearer change management process

- Clearer approach to systems upgrades and implementations – broader focus on ensuring key functionality addressed
- Improved patient communication strategy
- Contract addendum to ensure transitional support from vendor

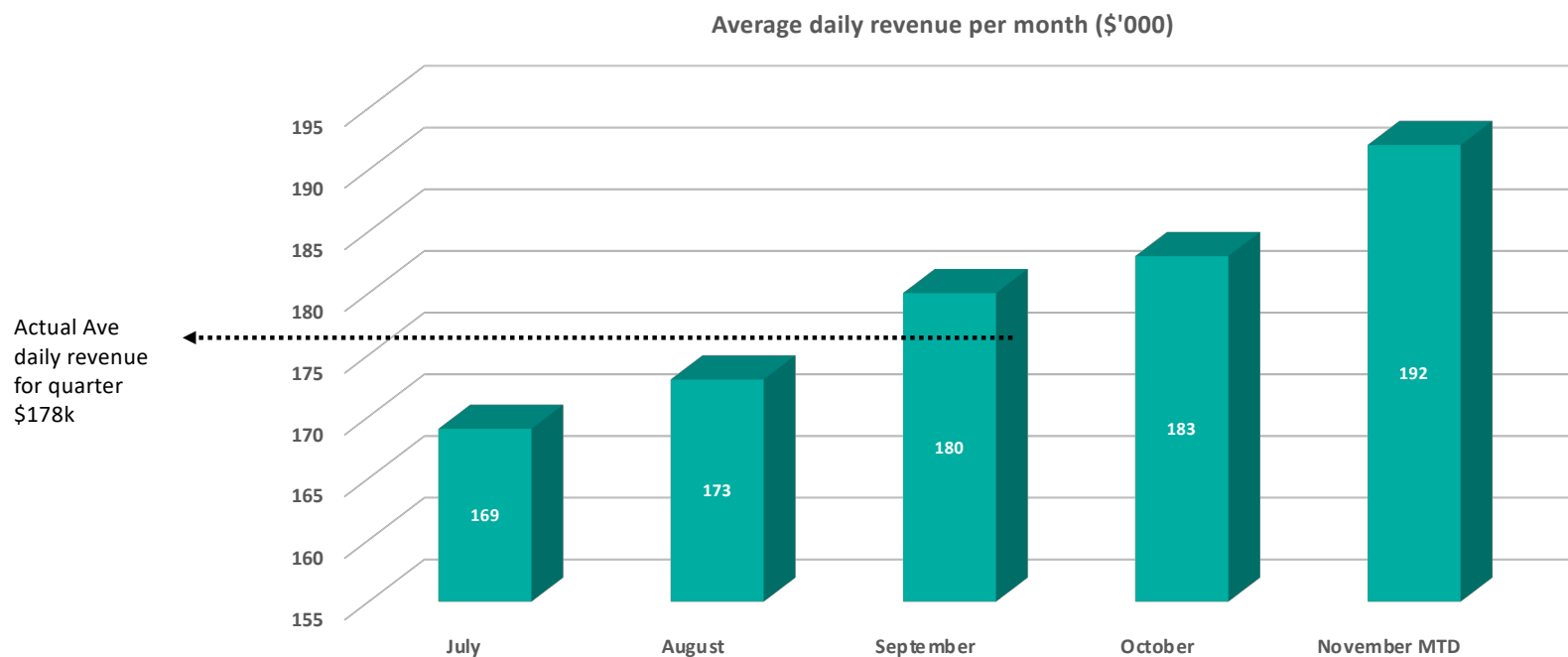
# IMPACT ON FINANCIALS – Q1

## Q1 revenues below expectations



# IMPACT ON FINANCIALS

## Q2 Revenues increasing



Smiles Inc has commenced and is continuing localised marketing campaigns to address trading performance  
Excludes the trading of significant event practices

# ORGANIC GROWTH INITIATIVES

Initiative	Detail	Status
<b>Increase in utilisation of acquired chairs</b>	Smiles Inc acquired 167 chairs in its initial portfolio and engaged 93 practitioners	Continued active focus on increasing utilisation assisted by increase in practitioners by 22% to 114
<b>Existing patients</b>	Mining of existing patient database to reactivate patients who are past 12 months between check-ups	Commenced at practice level October 2018. Call Centre activated 1 December 2018
<b>Recall effectiveness</b>	Improve the ability to recall current patient base through practice management training and ensuring streamlined reminders	Face to face training of Victorian practices. Online webinar conducted November 2018. Practice by practice visit schedule
<b>Alternate payment channel activation</b>	Increase patient base through alternative payment channel	Zip Money and Afterpay activated in all practices. National campaign launched on 19 November 2018
<b>In-house referrals</b>	Reduce leakage of patient spend and enhance the patient experience	Soft trial through NSW in August 2018. Skills matrix completed and communications to network in November 2018
<b>Online campaign</b>	Increase patient base through online localised and national campaigns	Online campaigns launched November 2018

# ACQUISITION STRATEGY AND UPDATE

A focus on integrating the initial portfolio and ensuring that the same issues are not repeated has delayed the acquisition program. However Smiles Inc believes that its unique business model continues to generate interest from vendors who are attracted to a model of shared success.

## Acquisition strategy and pipeline

- Practices 100% acquired and valued at 5x EBIT multiple
- Vendors make a cash 'buy-in' contribution of up to 40% of the acquisition value, entitling them an equivalent proportion the profit of the Practice
- Available debt acquisition capacity of \$17.6m allowing for approximately 35 acquisitions
- Continued generation of interest with active pipeline of \$15m in gross practice revenue (\$4m in advanced negotiations stages) and a further \$45m in leads

## Acquisition update

- Recent completion of 3 acquisitions in Gold Coast region
- Acquired in line with Smiles Inc Joint Venture Partnership model
- 5x EBIT acquisition multiple consistent with initial portfolio
- Acquisition value at \$3.4 million

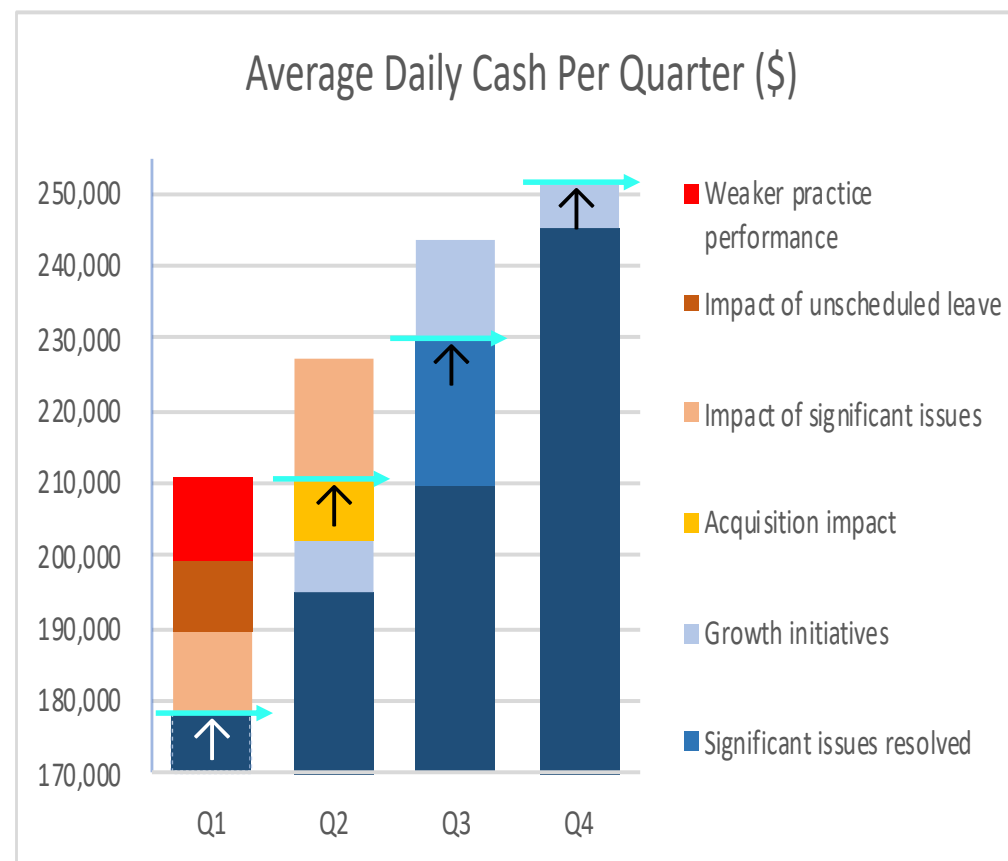
## Current acquisition case study

- Acquisition process substantially less draining on vending parties when compared to the IPO portfolio
- Contracts tightened to ensure continuity of lead practitioners
- Broadened due diligence undertakings
- Business manager assignment from day 1
- Branding to be completed within first 90 days
- More investment in practice management training
- Rostering reviewed within 21 days

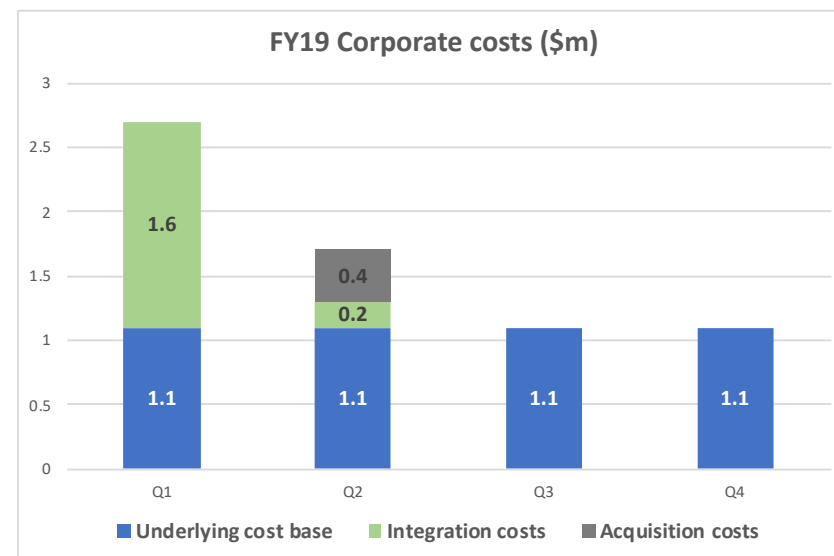
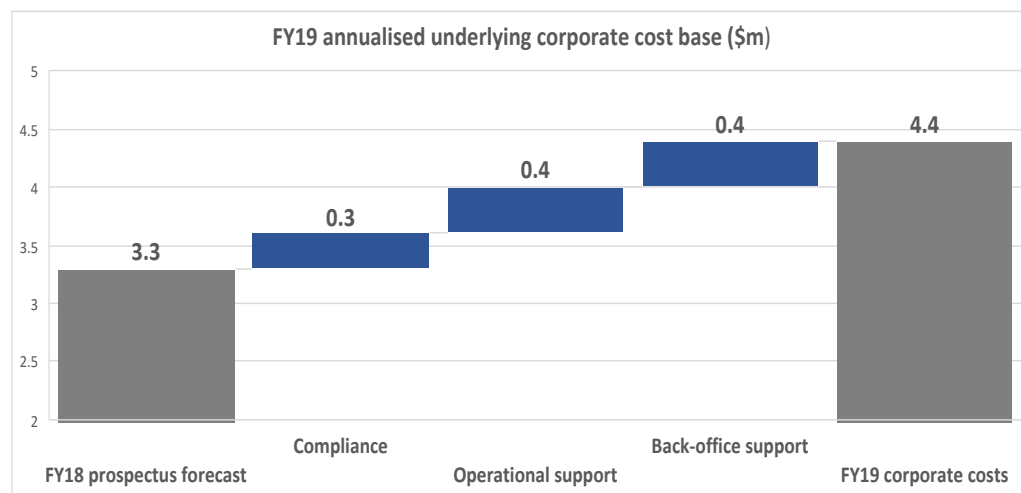


# FY19 CASH REVENUE GUIDANCE BASIS

- Prospectus assumed annual average daily cash of \$214k per day
- Q1 trading resulted in average daily cash of \$178k for the quarter
- Q2 trading to date reflects average daily cash of \$210k per day
  - Impact of acquisitions announced is expected to generate \$8k per day
  - Commencement of Q2 growth initiatives \$7k per day (or \$225 per practice per day ) for remainder of quarter
- Q3 daily cash expected to improve to \$230k per day
  - \$19k per day as significant issues resolved
  - \$13k per day (or \$225 per practice per day) impact of growth initiatives
- Q4 daily cash expected to improve to \$245k per day
  - \$6k per day (or \$100 per practice per day) impact of growth initiatives
- Q3 and Q4 based on current owned practices



# FY19 CORPORATE OVERHEAD GUIDANCE BASIS



Acquisition and integration costs associated with initial portfolio now completed impacting Q1 results on a statutory basis (approximately \$1.6 million). Additional \$0.4 million acquisition costs and \$0.2 million integration costs expected for 3 completed practices

Cost base set for the acquisition phase, allowing for substantially reduced integration costs for future acquisitions. However continued focus on cost efficiency

# FY19 GUIDANCE

*The original FY19 guidance was provided on the basis of a fully integrated group which has been updated for the impact of events and transactions outlined. To that extent, the company provides guidance of earnings before interest, tax, depreciation and amortisation (EBITDA) inclusive of integration and acquisition costs to date of \$5.0 million and net profit after tax of \$2.3m.*

Sm	Original Guidance	Increase in corporate capacity	Voucher Redemption timing	Current Acquisition	Underlying Guidance	Impact of Non-Recurring Items		Revised Guidance
						Significant Events	Integration & Acquisition Costs	
EBITDA	10.1	(1.0)	(0.6)	0.2	8.7	(1.5)	(2.2)	5.0
PBT	8.4	(1.0)	(0.6)	0.1	6.9	(1.5)	(2.2)	3.2
NPAT	6.0	(0.7)	(0.4)	0.1	5.0	(1.1)	(1.6)	2.3

- EBITDA margin on underlying basis revised to 14.2% expected to recover going forward
- Excludes impact of further acquisitions and the associated costs and tax losses which may be available in FY19
- The impact of non-recurring items and the delayed commencement of growth initiatives impact the 1HFY19 trading only. Accordingly results are skewed to 2HFY19 with a NPAT loss in 1HFY19 anticipated

# SUMMARY

## Influencing factors

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***The following factors have had a significant impact on the Company's year to date trading:***

- Impact of significant events
- Trading in regional areas below expectations
- Delay in commencing growth initiatives
- Completion of integration of initial portfolio in Q1 FY19

## Initiative execution

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***Smiles Inc has commenced the execution of a number of key initiatives aimed at increasing chair utilisation:***

- Recall functionality and training rolled out
- Focus on reengaging with existing patient base
- In-house referral program
- Roll-out of national campaigns through multiple channels
- Increase in practitioner numbers

## Continued disruption

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***The industry dynamics have remained consistent since the date of listing and the Company has learnt lessons from the integration of the initial portfolio which will only strengthened the foundations under which the model is premised:***

- Issues identified and remedial actions undertaken
- Recent settlement of 3 practices
- Continued focus on acquisitions with \$4m in gross practice revenue in advanced negotiations

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# QUESTIONS

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# BUSINESS OF MEETING

# ITEM 1: FINANCIAL STATEMENTS AND REPORTS

To receive and consider the Company's financial report, the Directors' report and the auditor's report for the financial year ended 30 June 2018.

There is no requirement for a formal resolution on this item.

## ITEM 2: REMUNERATION REPORT

### Resolution 1 – Adoption of remuneration report

To consider the remuneration report as it appears in the annual report for the Company (**Remuneration Report**) for the financial year ended 30 June 2018 and, if thought fit, pass the following non-binding resolution as an ordinary resolution:

“That the Remuneration Report for the financial year ended 30 June 2018 be adopted.”

	Proxies received		
	For	Against	Open
Number of shareholders	37	11	11
Number of votes cast	12,054,151	268,300	624,000
% of votes able to be cast	93.11%	2.07%	4.82%



## ITEM 3: ELECTION OF DIRECTORS

### Resolution 2 – Election of Tracy Penn as Director

To consider, and, if thought fit, pass the following resolution as an ordinary resolution:

"That, Tracy Penn, who retires having previously been appointed to fill a casual vacancy in accordance with rule 19.2(b) of the Company's constitution, and having consented to act and being eligible, be elected as a Director of the Company."

	Proxies received		
	For	Against	Open
Number of shareholders	51	5	11
Number of votes cast	20,549,293	2,839,075	624,000
% of votes able to be cast	85.58%	11.82%	2.60%

## Resolution 3 – Election of Peter Evans as Director

To consider, and, if thought fit, pass the following resolution as an ordinary resolution:

"That, Peter Evans, who retires having previously been appointed to fill a casual vacancy in accordance with rule 19.2(b) of the Company's constitution, and having consented to act and being eligible, be elected as a Director of the Company."

	Proxies received		
	For	Against	Open
Number of shareholders	23,384,451	-	624,917
Number of votes cast	54	-	12
% of votes able to be cast	97.40%	-	2.60%

## Resolution 4 – Election of Joshua Lowcock as Director

To consider, and, if thought fit, pass the following resolution as an ordinary resolution:

"That, Joshua Lowcock, who retires having previously been appointed to fill a casual vacancy in accordance with rule 19.2(b) of the Company's constitution, and having consented to act and being eligible, be elected as a Director of the Company."

	Proxies received		
	For	Against	Open
Number of shareholders	23,386,151	1,300	624,917
Number of votes cast	53	1	12
% of votes able to be cast	97.39%	0.01%	2.60%

# ITEM 4: APPOINTMENT OF AUDITOR

## Resolution 5 – Appointment of Company auditor

To consider and, if thought fit, pass the following resolution as an ordinary resolution:

"That, for the purpose of section 327B(1) of the Corporations Act and for all other purposes, KPMG, having been nominated by a Shareholder and having consented in writing to act in the capacity of auditor, be appointed as the auditor for the Company."

	Proxies received		
	For	Against	Open
Number of shareholders	23,388,368	-	623,500
Number of votes cast	55	-	10
% of votes able to be cast	97.40%	-	2.60%

# ITEM 5: EMPLOYEE SHARE PLAN

## Resolution 6 – Approval of Employee Share Plan (withdrawn)

To consider and, if thought fit, pass the following resolution as an ordinary resolution:

“That, for the purposes of sections 257B(1), 259B(2) and 260C(4) of the Corporations Act, Listing Rule 7.2 (Exception 9) and for all other purposes, approval is given for the Company to adopt the Employee Share Plan (**Plan**) and for the issue or transfer of fully paid ordinary shares in the Company under the Plan as an exception to Listing Rule 7.1, as described in the Explanatory Memorandum.”

	Proxies received		
	For	Against	Open
Number of shareholders	10,851,376	2,877,992	623,500
Number of votes cast	44	10	10
% of votes able to be cast	75.60%	20.05%	4.34%

## Resolution 7 – Approval of issue to Tracy Penn under the Plan (withdrawn)

To consider and, if thought fit, pass the following resolution as an ordinary resolution:

“That, conditional upon Resolution 6 being approved, for the purposes of Listing Rule 10.14 and for all other purposes, approval is given for the issue to, and acquisition by, Mrs Tracy Penn (or her nominee) of Shares in accordance with the rules of the Plan and on the basis described in the Explanatory Memorandum.”

	Proxies received		
	For	Against	Open
Number of shareholders	10,582,076	3,146,292	623,500
Number of votes cast	32	21	10
% of votes able to be cast	73.73%	21.92%	4.34%