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7 March 2019

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Dear Lisa

Response to Aware Query

Smiles Inclusive Limited (ASX: **SIL**) (**Company**) refers to your letter dated 6 March 2019 regarding the earnings downgrade announced through the ASX Market Announcements Platform on 28 February 2019 (**Earnings Downgrade**).

The Company provides the following responses to your questions:

- 1. Does SIL consider the difference between the FY19 Guidance and Earnings Downgrade to be information that a reasonable person would expect to have a material effect on the price or value of its securities?**

Yes, when viewed in isolation SIL considers the difference between the FY19 Guidance and Earnings Downgrade to be information that a reasonable person would expect to have a material effect on the price or value of its securities.

SIL does consider that the market is aware that as a recent acquirer of a large number of dental practices, its earnings are subject to a number of sensitivities and risks which do not impact most other ASX listed entities (including those set out in the prospectus for the Company's 2018 initial public offering).

SIL also notes that its announcement at 8.20pm on 28 February included reference to an emphasis of matter in its 31 December financial statements (**31 December Accounts**) and changes in senior management (**Other Announced Matters**) which may have had a material effect on subsequent trading in its securities.

- 2. If the answer to question 1 is "no", please advise the basis for that view.**

Not applicable.

- 3. When did SIL first become aware of the Earnings Downgrade?**

After close of trade on 28 February 2019.

The Board continually monitors the Company's financial performance with reference to guidance and significant factors particular to the Company. Matters considered have historically been and will continue to be both positive and negative.

Until very recently, the board had considered that upside as against the original FY19 Guidance could be achieved by opportunities within the mobile dentistry practice that was temporarily closed as announced on 21 November 2018 (through early reopening and opportunities within the practice not factored into guidance). Significant opportunities have also been envisaged within South Australian operations by utilising government funding schemes.

Senior management finalised outstanding items in relation to the 31 December Accounts with the Company's auditors (including the emphasis of matter referenced above) late on 28 February 2018.

The Company's board then immediately met to consider the 31 December Accounts and the Other Announced Matters and determined to provide revised statutory guidance for the period to 30 June 2019.

This revised guidance factored in the matters included in the Appendix 4C quarterly cashflow report and accompanying announcements on 31 January 2019 (see further detail in response to question 4 below), the final 31 December Accounts, trading during February (which was below expectation), previously unforeseen and uncertain costs (such as litigation), delays implementing turnaround strategies, further realisation of acquisition and integration risks and the Other Announced Matters.

The finalisation of the review process and the other factors noted above were critical to the Company having the information it needed to be able to announce the Earnings Downgrade with a reasonable degree of certainty.

- 4. If the answer to question 1 is "yes" and SIL first became aware of the downgrade in earnings guidance before the relevant date, did SIL make any announcement prior to the relevant date which disclosed the information? If so, please provide details. If not, please explain why this information was not released to the market at an earlier time, commenting specifically on when you believe SIL was obliged to release the information under Listing Rules 3.1 and 3.1A and what steps SIL took to ensure that the information was released promptly and without delay.**

SIL considers that the Earnings Downgrade was announced promptly and without delay once there was a reasonable degree of certainty that there would be a material difference from the FY19 Guidance.

SIL notes that prior to the Earnings Downgrade, investors were provided information as part of the Appendix 4C quarterly cashflow report and accompanying announcements on 31 January 2019 that it considered likely to have modified the market's expectations, including lower than expected cash inflows (\$0.5m below expectations in the December quarter), an additional practice acquisition (with associated acquisition and integration costs which were expressly excluded from the FY19 Guidance) and ongoing costs associated with remedial actions in relation to the temporarily closed mobile dentistry practice.

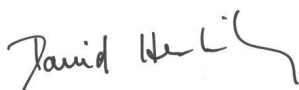
- 5. Please confirm that SIL is complying with the Listing Rules and, in particular, Listing Rule 3.1.**

The Company confirms that it is in compliance with the Listing Rules and, in particular, Listing Rule 3.1.

- 6. Please confirm that SIL's responses to the questions above have been authorised and approved in accordance with its published continuous disclosure policy or otherwise by its board or an officer of SIL with delegated authority from the board to respond to ASX on disclosure matters.**

The Company confirms that its responses to the questions above have been authorised and approved by its board.

Yours faithfully



David Herlihy
Chairman



6 March 2019

Ms Jessica Watter
Company Secretary
Smiles Inclusive Limited

By email:

Dear Ms Watter,

Smiles Inclusive Limited ('SIL'): Aware Query

ASX refers to the following:

- A. SIL's announcement entitled "First Quarter Trading Update and FY19 Guidance" lodged on the ASX Market Announcements Platform and released at 8.20 PM on 21 November 2018 ('FY19 Guidance'), disclosing earnings guidance for FY19 of Earnings Before Interest Tax and Deferred Assets ('EBITDA') to be \$5.0 million and Net Profit After Tax ('NPAT') of \$2.3 million.
- B. SIL's announcement entitled "Half year results, management changes and guidance" lodged on the ASX Market Announcements Platform and released at 8.20 PM on 28 February 2019, disclosing an expected statutory loss of between \$0.5m and \$1m for FY19 ("Earnings Downgrade").
- C. Listing Rule 3.1, which requires a listed entity to immediately give ASX any information concerning it that a reasonable person would expect to have a material effect on the price or value of the entity's securities.
- D. The definition of "aware" in Chapter 19 of the Listing Rules, which states that:

"an entity becomes aware of information if, and as soon as, an officer of the entity (or, in the case of a trust, an officer of the responsible entity) has, or ought reasonably to have, come into possession of the information in the course of the performance of their duties as an officer of that entity" and section 4.4 in Guidance Note 8 Continuous Disclosure: Listing Rules 3.1 – 3.1B "When does an entity become aware of information."

- E. Listing Rule 3.1A, which sets out exceptions from the requirement to make immediate disclosure, provided that each of the following are satisfied.

"3.1A Listing rule 3.1 does not apply to particular information while each of the following is satisfied in relation to the information:

3.1A.1 One or more of the following applies:

- *It would be a breach of a law to disclose the information;*
- *The information concerns an incomplete proposal or negotiation;*
- *The information comprises matters of supposition or is insufficiently definite to warrant disclosure;*
- *The information is generated for the internal management purposes of the entity; or*
- *The information is a trade secret; and*

3.1A.2 The information is confidential and ASX has not formed the view that the information has ceased to be confidential; and

3.1A.3 A reasonable person would not expect the information to be disclosed."

- F. ASX's policy position on the concept of "confidentiality", which is detailed in section 5.8 of Guidance Note 8 *Continuous Disclosure*: Listing Rules 3.1 – 3.1B. In particular, the Guidance Note states that:

"Whether information has the quality of being confidential is a question of fact, not one of the intention or desire of the listed entity. Accordingly, even though an entity may consider information to be confidential and its disclosure to be a breach of confidence, if it is in fact disclosed by those who know it, then it ceases to be confidential information for the purposes of this rule."

Request for Information

Having regard to the above, ASX asks SIL to respond separately to each of the following questions and requests for information:

1. Does SIL consider the difference between the FY19 Guidance and Earnings Downgrade to be information that a reasonable person would expect to have a material effect on the price or value of its securities?
2. If the answer to question 1 is "no", please advise the basis for that view.
3. When did SIL first become aware of the Earnings Downgrade?
4. If the answer to question 1 is "yes" and SIL first became aware of the downgrade in earnings guidance before the relevant date, did SIL make any announcement prior to the relevant date which disclosed the information? If so, please provide details. If not, please explain why this information was not released to the market at an earlier time, commenting specifically on when you believe SIL was obliged to release the information under Listing Rules 3.1 and 3.1A and what steps SIL took to ensure that the information was released promptly and without delay.
5. Please confirm that SIL is complying with the Listing Rules and, in particular, Listing Rule 3.1.
6. Please confirm that SIL's responses to the questions above have been authorised and approved in accordance with its published continuous disclosure policy or otherwise by its board or an officer of SIL with delegated authority from the board to respond to ASX on disclosure matters.

When and where to send your response

This request is made under Listing Rule 18.7. Your response is required as soon as reasonably possible and, in any event, by no later than 9.30 AM **AEDT Friday, 8 March 2019**.

You should note that if the information requested by this letter is information required to be given to ASX under Listing Rule 3.1 and it does not fall within the exceptions mentioned in Listing Rule 3.1A, SIL's obligation is to disclose the information "immediately". This may require the information to be disclosed before the deadline set out in the previous paragraph and may require SIL to request a trading halt immediately.

If you wish to request a trading halt, you must tell us:

- the reasons for the trading halt;
- how long you want the trading halt to last;
- the event you expect to happen that will end the trading halt;
- that you are not aware of any reason why the trading halt should not be granted; and
- any other information necessary to inform the market about the trading halt, or that we ask for.

We require the request for a trading halt to be in writing. The trading halt cannot extend past the commencement of normal trading on the second day after the day on which it is granted.

You can find further information about trading halts in Guidance Note 16 *Trading Halts & Voluntary Suspensions*.

ASX reserves the right to release a copy of this letter and your response on the ASX Market Announcements Platform under Listing Rule 18.7A. Accordingly, your response should be in a form suitable for release to the market.

Your response should be sent to me by e-mail at ListingsComplianceSydney@asx.com.au. It should not be sent directly to the ASX Market Announcements Office. This is to allow me to review your response to confirm that it is in a form appropriate for release to the market, before it is published on the ASX Market Announcements Platform.

Listing Rules 3.1 and 3.1A

In responding to this letter, you should have regard to SIL's obligations under Listing Rules 3.1 and 3.1A and also to Guidance Note 8 *Continuous Disclosure: Listing Rules 3.1 – 3.1B*. It should be noted that SIL's obligation to disclose information under Listing Rule 3.1 is not confined to, nor is it necessarily satisfied by, answering the questions set out in this letter.

Suspension

If you are unable to respond to this letter by the time specified above ASX will likely suspend trading in SIL's securities under Listing Rule 17.3.

Enquiries

If you have any queries or concerns about any of the above, please contact me immediately.

Regards

Lisa Banh
Senior Adviser, Listings Compliance (Sydney)