

## Smiles Inclusive Limited (ASX: SIL)

### Appendix 4E – Preliminary Final Report

#### Results for Announcement to the Market

Reporting period: 01 July 2018 to 30 June 2019  
 Previous corresponding period: 15 August 2017 to 30 June 2018 (restated)

Statutory Financial Results	30 Jun 19	30 Jun 18	Movement up/(down)	
	\$'000	\$'000	\$'000	%
Revenue from ordinary activities	30,590	6,056	24,534	405.1%
Loss from ordinary activities after tax	(18,878)	(4,955)	(13,923)	(281.0)%
Net loss attributable to members	(18,878)	(4,955)	(13,923)	(281.0)%
Earnings per share (basic and diluted) - cents per share	(32.45)	(32.38)	(0.07)	(0.2)%
<b>Underlying Financial Results<sup>1</sup></b>	<b>30-Jun-19</b>	<b>30-Jun-18</b>	<b>Movement up/(down)</b>	
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>%</b>
Revenue from ordinary activities	30,590	6,056	24,534	405.1%
Loss from ordinary activities after tax	(4,497)	(2,813)	(1,684)	(59.9)%
Net loss attributable to members	(4,497)	(2,813)	(1,684)	(59.9)%
Earnings per share (basic and diluted) - cents per share	(0.08)	(0.18)	0.11	57.9%

<sup>1</sup> Underlying Financial Result are non-IFRS profit measures used by Directors and Management to assess the underlying performance of the Group which have not been audited/reviewed.

Reconciliation from Statutory to Underlying Financial Results	30 Jun 19	30 Jun 18	Movement up/(down)	
	\$'000	\$'000	\$'000	%
<b>Statutory loss after tax</b>	<b>(18,878)</b>	<b>(4,955)</b>	<b>(13,923)</b>	<b>(281.0)%</b>
Integration costs	549	307	242	78.8%
Business acquisition costs: once-off costs	391	2,648	(2,257)	(85.2)%
Impairment of assets	13,700	-	13,700	N/A
Income tax effect of adjustments	(259)	(813)	554	68.2%
<b>Underlying loss after tax</b>	<b>(4,497)</b>	<b>(2,813)</b>	<b>(1,684)</b>	<b>(59.9)%</b>

#### Dividend information

Dividends	Amount per security (cps)	Franked amount
<b><u>Dividends paid</u></b>		
FY 2018 final dividend	Nil	N/A
<b><u>Dividends declared</u></b>		
FY 2019 dividend declared	Nil	N/A
Record date for determining entitlements to the dividend		N/A
Date dividend payable		N/A

The Company does not currently offer a dividend reinvestment plan.

## Audit report and audited results

The Consolidated Entity's accounts are currently being audited and as such, the information set out in this Appendix 4E and the attached preliminary financial report is unaudited. The Company has not received any indication as to whether or not the audited accounts may be subject to a modified opinion, emphasis of matter or other matter paragraph.

## Commentary on results for the period

Key performance outcomes for SIL for the financial year ended 30 June 2019 (unaudited) are:

- statutory loss after tax of \$18.9 million
- net impairment of \$13.7 Million
- practice revenue (net of direct costs) of \$30.6 million
- underlying loss after tax of \$4.5 million
- cash balances \$1.6 million

### Financial Performance

A number of factors have contributed to the poor performance in FY19 including:

- Unsuccessful integration of the business and associated ongoing business approach.
- Breakdown of relationships with some Joint Venture Partners (JVP's), which led to a low level of engagement.
- Operational issues within the mobile division, leading to the its temporary closure.
- Litigation issues which have distracted management from the operations of the business and resulted in significant legal costs.

The unsuccessful implementation of the business model has resulted in poor financial performance and required the development of a Turnaround plan. The Turnaround plan has been independently reviewed on behalf of our financiers and is being implemented.

Turnaround initiatives have included a substantial reduction in support offices staffing levels, the benefits of which will flow through in FY20.

Management accounts for July 2019 show a return to a small profit at an EBITDA level, however the management team expects that there will be some volatility in financial performance over coming months, as the Turnaround gains momentum.

### Financial Position

In accordance with accounting standards, the Group reviewed its Goodwill balance at 30 June 2019, resulting in a net impairment of \$13.7 million.

At 30 June 2019 the Group has cash of \$1.6 million and drawn debt of \$24.0 million.

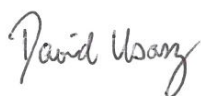
As a result of the ongoing performance issues and reduced access to capital SIL announced a share placement on the 20<sup>th</sup> of June 2019 and raised \$1.2 million to help deliver the Turnaround. The offer price for the placement was \$0.14 per fully paid ordinary share.

## Net tangible assets/(liabilities) per security

Net Tangible Assets/(Liabilities) Per Security	30 Jun 19	30 Jun 18	Movement up/(down)	
	Cents	Cents	Cents	%
Net tangible liabilities per ordinary security	(0.05)	(0.05)	-	0.0%

## Joint Ventures, Foreign Entities and Control Gained or Lost Over Entities

Not applicable during the period or the previous corresponding period.



David Usasz  
Chairman  
Smiles Inclusive Limited Date:

30 August 2019



ABN 27 621 105 824  
ACN 621 105 824

# **Smiles Inclusive Limited**

## **Preliminary Financial Report**

### **30 June 2019**

This preliminary financial report constitutes the Appendix 4E prepared in accordance with the Australian Securities Exchange Listing Rules. This report does not include all of the notes of the type normally included in an annual financial report and is unaudited.

**Smiles Inclusive Limited**  
**Preliminary Financial Report**  
30 June 2019

<b>Contents</b>	<b>Page</b>
Preliminary Financial Report	
Consolidated Statement of Profit or Loss and Other Comprehensive Income	2
Consolidated Balance Sheet	3
Consolidated Statement of Changes in Equity	4
Consolidated Statement of Cash Flows	5
Notes to the Financial Report	6
Company Directory	11

**Consolidated Statement of Profit or Loss and Other Comprehensive Income**  
For the year ended 30 June 2019

	Note	30 Jun 19 \$'000	30 Jun 18 \$'000
<b>Practice Revenue</b>		<b>30,590</b>	<b>6,056</b>
Consumables supplies expenses		(2,560)	(443)
Employee expenses		(18,634)	(4,156)
Marketing expenses		(767)	(231)
Occupancy expenses		(3,843)	(605)
Administration and other expenses		(8,690)	(6,422)
Net impairment expense		(13,700)	-
Depreciation and amortisation expense		(1,608)	(108)
<b>Loss before finance costs and income tax</b>		<b>(19,212)</b>	<b>(5,909)</b>
Net Finance Cost		(1,371)	(208)
<b>Loss before income tax</b>		<b>(20,583)</b>	<b>(6,117)</b>
Income tax benefit		1,705	1,162
<b>Loss for the year</b>		<b>(18,878)</b>	<b>(4,955)</b>
Other comprehensive income		-	-
<b>Total comprehensive loss for the year</b>		<b>(18,878)</b>	<b>(4,955)</b>
Basic and diluted loss per share attributable to ordinary equity (cents per share)		(32.45)	(32.38)

*The above Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.*

**Consolidated Balance Sheet**  
As at 30 June 2019

	Note	30 Jun 19 \$'000	30 Jun 18 \$'000
<b>Assets</b>			
Cash and cash equivalents		1,595	2,009
Receivables		3,491	2,813
Inventories		558	-
Deferred tax assets		4,393	2,631
Property, plant & equipment		10,596	3,681
Intangible assets	6	49,272	62,208
<b>Total Assets</b>		<b>69,905</b>	<b>73,342</b>
<b>Liabilities</b>			
Payables		6,944	5,186
Deferred revenue		570	564
Provisions		2,405	2,087
Interest bearing liabilities		23,413	10,940
Joint Venture Partner Contribution		21,109	21,435
<b>Total Liabilities</b>		<b>54,441</b>	<b>40,212</b>
<b>Net Assets</b>		<b>15,464</b>	<b>33,130</b>
Contributed equity		39,297	38,085
Retained earnings		(23,833)	(4,955)
<b>Total Equity</b>		<b>15,464</b>	<b>33,130</b>

The above Consolidated Balance Sheet should be read in conjunction with the accompanying notes.

**Consolidated Statement of Changes in Equity**  
For the year ended 30 June 2019

		Contributed Equity	Retained Earnings/ (accumulated losses)	Total
	Note	\$'000	\$'000	\$'000
<b>Balance at 15 August 2017</b>		-	-	-
Total comprehensive loss for the year		-	(4,955)	(4,955)
<b>Transactions with owners of the Company, recognised directly in equity:</b>				-
Issue of securities		35,200	-	35,200
Contribution to Owners <sup>1</sup>		5,287	-	5,287
Share issue costs, net of tax		(2,402)	-	(2,402)
<b>Balance at 30 June 2018</b>		<b>38,085</b>	<b>(4,955)</b>	<b>33,130</b>
<b>Balance at 1 July 2018</b>		<b>38,085</b>	<b>(4,955)</b>	<b>33,130</b>
Total comprehensive loss for the year		-	(18,878)	(18,878)
<b>Transactions with owners of the Company, recognised directly in equity:</b>		-	-	-
Issue of securities		1,217	-	1,217
Share issue costs		(5)	-	(5)
<b>Balance at 30 June 2019</b>		<b>39,297</b>	<b>(23,833)</b>	<b>15,464</b>

<sup>1</sup> Contribution to owners relates to conversion of convertible notes to equity.

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

**Consolidated Statement of Cash Flow**  
For the year ended 30 June 2019

	Note	30 Jun 19 \$'000	30 Jun 18 \$'000
<b>Cash flow from operating activities</b>			
Receipts from patients		47,062	7,303
Payments to suppliers and employees		(52,961)	(8,530)
Interest received		3	1
Finance costs including interest and other costs of finance paid		(1,215)	(3)
<b>Net cash flows from/(used in) operating activities</b>		<b>(7,111)</b>	<b>(1,229)</b>
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment		(1,341)	(1,575)
Proceeds from disposal of PP&E		56	-
Payments for practices, net of cash received		(2,749)	(41,831)
Payment for rental bond term deposits		(63)	(200)
<b>Net cash flows (used in)/ from investing activities</b>		<b>(4,097)</b>	<b>(43,606)</b>
<b>Cash flow from financing activities</b>			
Proceeds from issue of securities		1,217	35,000
Proceeds from issue of convertible notes		-	3,950
Costs associated with issue of securities		(6)	(3,036)
Net proceeds from borrowings		8,433	11,175
Proceeds from sale & leaseback of PP&E		1,939	-
Lease payments		(783)	-
Payment for debt issue costs		(6)	(245)
<b>Net cash flows (used in)/ from financing activities</b>		<b>10,794</b>	<b>46,844</b>
Net increase/(decrease) in cash and cash equivalents		(414)	2,009
Cash and cash equivalents at the beginning of the year		2,009	-
<b>Cash and cash equivalents at the end of the year</b>		<b>1,595</b>	<b>2,009</b>

The above Consolidated Statement of Cash Flow should be read in conjunction with the accompanying notes.

## Notes to the preliminary financial report

### For the year ended 30 June 2019

As a preliminary financial report, we have included a limited set of Notes.

The Company is in the process of working with its Auditor to complete its full year audit, and will provide all required Notes as part of its fully audited FY19 financial statements.

#### 1. Statement of Significant Accounting Policies

##### (a) Statement of compliance

The preliminary financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards (including Australian Accounting Interpretations), other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

##### (b) Basis of preparation

These financial statements have been prepared on an accruals 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. Cost is based on the fair value of consideration given in exchange for assets.

All amounts are presented in Australian dollars, which is the Group's functional currency.

Except as described below, the accounting policies adopted in preparation of the preliminary financial report are consistent with those adopted and disclosed in the Company's annual financial report for the financial year ended 30 June 2018. If applicable, additional accounting policies are presented for new types of transactions that have occurred since the end of the previous financial year.

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2017/191. Pursuant to this instrument, amounts in the financial report have been rounded off to the nearest thousand dollars, or in certain cases, to the nearest dollar.

##### *Judgements and Estimates*

The preparation of the preliminary financial report requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

## Notes to the preliminary financial report

For the year ended 30 June 2019

### (c) Restatement of FY18 comparatives

As disclosed in the interim financial report for the period ended 31 December 2018, SIL reviewed its valuations of the acquisitions that occurred between 20 April 2018 and 29 May 2018. As a result the FY18 financial statements were restated as follows:

	Final acquisition accounting	Provisional acquisition accounting	Change <sup>1</sup>
	30-Jun-18	30-Jun-18	30-Jun-18
	\$'000	\$'000	\$'000
Cash and cash equivalents	35	35	-
Trade Receivable	350	502	(152)
Property, plant and equipment	3,076	3,838	(762)
Deferred tax asset	558	522	36
Other payables	(252)	(136)	(116)
Lease make good provision	(827)	(827)	-
Employee entitlements	(1,072)	(1,072)	-
<b>Net identifiable Assets acquired</b>	1,868	2,862	(994)
Goodwill on acquisition of practices	62,223	60,439	1,784
<b>Acquisition price<sup>2</sup></b>	<b>64,091</b>	<b>63,301</b>	<b>790</b>

<sup>1</sup>Above amounts relate to accounting adjustments for assets and liabilities taken on at acquisition date but not finalized until 30 June 2019.

<sup>2</sup>As part of the commercial negotiations with vendors, separate agreements were entered into for certain assets. These agreements in conjunction with the Business Sale Agreements reflected the overall consideration for the acquired practices. At 30 June 2018, these contracts were recognized as separate equipment purchase contracts and not initially included in the provisional acquisition price of the practices. At 31 December 2018 management determined that these balances should form part of the purchase price.

SIL is in the process of finalizing its acquisition accounting for the FY18 acquisitions and will update these notes as part of its fully audited FY19 financial statements.

## 2. Segment Information

An operating segment is a component of the Group that:

- engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Group);
- whose operating results are regularly reviewed by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance; and
- for which discrete financial information is available.

The Group also considers other factors in determining operating segments such as the existence of a line manager and the level of segment information presented to the Board.

Operating segments are identified based on internal reports that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and assess its performance. Management review segment performance on a practice level, or where two or more practices share cashflows, at a joint venture partner level. This represents the lowest level at which cash generating units are measured.

Individual cash generating units are aggregated for segment purposes as the Group's activities are within the dental sector located in Australia and are consistent for the Group as a whole.

## Notes to the preliminary financial report

### For the year ended 30 June 2019

The majority of revenue relates to the provision of dental services to Australian customers.

#### 3. Dividends

No dividends were declared or paid by the Group for the year ended 30 June 2019.

#### 4. Contributed Equity

	30 Jun 19	30 Jun 18
	\$'000	\$'000
<b>Issued capital</b>		
Ordinary securities fully paid	39,297	38,085
<b>Total issued capital</b>	<b>39,297</b>	<b>38,085</b>
<b>Number of Ordinary securities fully paid</b>	<b>66,622,835</b>	<b>57,932,900</b>

#### 5. Earnings Per Share

	30 Jun 19	30 Jun 18
	\$'000	\$'000
<b>Loss after income tax attributable to the owners of the Group</b>	<b>(18,878)</b>	<b>(4,955)</b>
	#'000	#'000
<b>Weighted average number of ordinary shares used in calculating basic earnings per share</b>	<b>58,171</b>	<b>15,303</b>
	Cents	Cents
<b>Basic earnings per share</b>	<b>(32.45)</b>	<b>(32.38)</b>
<b>Diluted earnings per share</b>	<b>(32.45)</b>	<b>(32.38)</b>

**Notes to the preliminary financial report**  
For the year ended 30 June 2019

**6 Intangible Assets**

	Jun 2019 \$'000	Jun 2018 \$'000
Goodwill	62,904	62,208
Net impairment losses	(13,700)	-
	<b>49,204</b>	<b>62,208</b>
Rights, licenses and software	82	-
less: accumulated amortisation and impairment	(14)	-
	<b>68</b>	<b>-</b>
<b>Total intangible assets</b>	<b>49,272</b>	<b>62,208</b>

**(a) Accounting for intangibles**

**Goodwill**

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired business at the date of acquisition. Goodwill on acquisitions of businesses is included in intangible assets.

Goodwill acquired in business combinations is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired and is carried at cost less accumulated impairment losses.

**(b) Impairment of assets**

Goodwill is not subject to amortisation and is tested at least annually for impairment. Other assets, including those that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. 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 of disposal and value in use.

In preparing the preliminary financial report, management has assessed the impairment of its Goodwill. This assessment has been made with reference to number of assumptions, estimations and judgements.

SIL is in the process of completing our FY 19 full year audit, and is working with its auditor to finalise the impairment adjustment.

## **Smiles Inclusive Limited Corporate Directory**

### **Principal Registered Office**

C/- Talbot Sayer  
Level 27, 123 Eagle Street, Brisbane, QLD 4000

W: [smilesinc.com.au](http://smilesinc.com.au)

### **Directors**

David Usasz  
Non-executive Chairman

Peter Evans  
Non-executive Director

Peter Fuller  
Non-executive Director

### **Company Secretary**

Emma Corcoran

### **Auditor**

KPMG

### **Share Registry**

Link Market Services Limited

### **Stock Exchange Listing**

Smiles Inclusive Limited shares are listed on the Australian Security Exchange under the code "SIL".