



ABN 27 621 105 824

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ASX Announcement 20 August 2020

Smiles Inclusive Limited: Operations update

Further to our market update on 15 May 2020, Smiles Inclusive Limited (**Company**) today provides a further operations update.

Victoria has declared a state of disaster, increasing restrictions to stage four with The Australian Health Protection Principle Committee (AHPPC) supporting the Victorian Governments move. As a result, the Australian Dental Association Victoria (ADAVB) has advised effective from the 7 August 2020 dental centres operating within the metropolitan area of Victoria and Mitchell Shire must practice in accordance with Level 3 dental restrictions, while regional Victoria moves to level 2 restrictions.

The Board and Management continue to work through the mandatory requirements and adopt the recommendations of the ADAVB with the temporary closure of four Victorian centres and the remaining five Victorian centres to continue to operate under level 2 and 3 restrictions from the 7 August 2020. Eligible employees will continue to receive the Australian Governments JobKeeper program.

In addition to managing the impacts of COVID-19 pandemic and the easing of restrictions in other states the business continues to welcome the gradual increase in patient volumes.

Commenting on the declared state of disaster in Victoria, Michelle Aquilina Chief Executive Officer said: "As we navigate our way through this pandemic, our heartfelt thoughts and support are with our fellow Victorians as they overcome the challenges that are presented to them. We will continue to embrace guidance and play our part within the Australian community. We have enhanced our COVID-19 protocols complying with Government directives implementing COVID-19 Safe Plans, supporting our workforce with Permitted Worker Permits and keeping workplace registers. We are also pleased to announce our partnership with Dr. Natalie Flatt, PhD from Connect Psych to provide an Employee Assistance Program and mental health support to our people.

Sale of practices

In keeping with the Company's previously announced intention to explore the disposal of non-core practices, the Company is pleased to inform the market of the sale of its Miranda and Yarram practices. Both of these practices were not making a material contribution to the Company's EBIT, the net proceeds were received and paid toward the reduction of the Company's loan with NAB on 13 July and 12 August 2020 respectively. The Company is also pleased to announce the restructure of the dentures and mobile divisions resulting in the consolidation of 15 tenancies. These initiatives are in line with our portfolio simplification and operational effectiveness plan.

Capital raising update

In addition to managing the COVID-19 pandemic the Company continues to be in advanced discussions for recapitalisation and remains focused on its recovery and sustainability strategy. As noted in the Appendix 4C for the quarter ended 30 June 2020, whilst cash receipts from customers of \$4.0 million were impacted for the quarter, the Company benefited from \$1.3 million in Government support primarily through the JobKeeper Program and also reduced cash payments from operating activities to

\$5.2 million, representing a significant decrease from previous quarter (ended 31 March 2020) of \$11.2 million. The Company expects it will be eligible for JobKeeper payments following 28 September 2020 based on the recently updated government policies, and is working to determine whether it will obtain further relief on refunds on state payroll tax.

Commenting on the strategic initiatives Michelle Aquilina, Chief Executive Officer, also provided the following update on the recapitalisation of the Company: “notwithstanding the challenges presented to us during these times I am pleased to advise that we continue to be in advanced discussions with a professional underwriter to raise capital for the Company with a target completion date by the end of September 2020. We remain focused on our goals to manage our core business efficiently and effectively to maximise shareholder value. The results to date have demonstrated the efforts, commitment and professionalism from our people during these challenging times and I am sincerely thankful to them”.

NAB financing arrangements and recapitalisation plan

The Company is pleased to announce it has agreed to finalise its banking relationship with its primary financier NAB under a formal release deed (**Deed**).

NAB has agreed under the Deed to release and discharge the Company from liability under its various banking facilities (including a full release of security) on receipt of a net payment of \$12,000,000 and repayment of amounts outstanding under the Company’s credit card (if any) and temporary JobKeeper facilities. Payment of the \$12,000,000 and repayment of the credit card facility is due by 11 September 2020 (**Repayment Date**), and repayment of the temporary JobKeeper facility is due within two business days of the Company’s receipt of JobKeeper funds from the ATO for the month of September.

The Company confirms that the total debit balance held with NAB at close of business Friday was \$19,290,659 (including \$347,658 under its credit card facility, and \$330,750 under its temporary JobKeeper facility).

The Company has agreed to pay net proceeds of the sale of any assets prior to the Repayment Date against amounts payable under the Deed. It has also agreed it will close all transaction accounts with NAB, end the use of merchant facilities and replace bank guarantees on issue with third parties by 30 September 2020.

The Deed has been agreed in the context of the Company’s broader recapitalisation plan. Further details of the plan will be released to the market in due course.

Financial statements update

The Company expects the audit review of the interim financial statements for the half-year ended 31 December 2019 to be completed by no later than 31 August 2020. The full year audit work for the year ended 30 June 2020 is in progress and the Company expects to have this finalised shortly in the near future.

The Company will also be lodging Appendix 4C cash flow statements monthly and looks forward to providing the regular cash flow updates going forward.

This announcement has been approved for release by the Board.

For further information please contact:

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