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31 July 2019

Smiles Inclusive Limited Investor Update

Dear Fellow Investors

The Board and Management of Smiles Inclusive Limited (the “Company” or “Smiles”) are fully engaged in executing the turnaround plan to eliminate losses and restore value for shareholders over time. We are pleased to provide an update of the plan, together with the key areas of progress to date:

Business Review

Since his appointment on 4 March 2019, Smiles CEO Tony McCormack, has reviewed the overall business, developed the turnaround plan, managed the preparation of detailed budgets, consolidated the Company’s relationship with its bankers and undertaken a detailed review of the marketing strategy.

Key components of this review the business and actions taken to date include:

- a flattening of Smiles organisation structure;
- replacing the leadership / management team;
- optimising of staffing levels - reducing support office numbers by 14 people (approximately 50% with annual saving of \$1.5m), with one more to leave in August, and improving rostering at some practices;
- creation of a Contact Centre of nine staff to reactivate past patients and provision of other practice communications support services;
- appointment of a new CFO, Emma Corcoran, who commenced in May 2019;
- recruitment of a Procurement and Facilities Manager and Training Manager;
- resolution of several litigation matters, negotiating others and dealing with some new claims from 2018 which have also arisen;
- overhauling and in some instances establishing basic systems, processes and procedures;
- unwinding of poor performing arrangements, contracts and commitments at support office and practice level;
- opportunities to upskill practitioners have been developed with short term benefits; and
- a detailed review of the marketing strategy, and commencement of the required repositioning.

Turnaround Plan

The turnaround plan was approved by the Board and primary bankers of Smiles in July 2019 and is currently being implemented. It consists of several discrete initiatives that vary in complexity and will be executed over the immediate, medium and long terms.

Immediate initiatives are addressing current specific issues and capitalising on those resources already in the business.

- A lack of practice workflow compliance is yielding low levels of re-bookings and recalls in some practices. Daily monitoring, and remedial action is underway.
- The business has many inactive patients who also had incomplete treatment plans and represented an immediate opportunity to improve revenues. Our Contact Centre has been focused on these opportunities since establishment.
- Relationships with Joint Venture Partners (JVPs) and Practice leaders are in the process of being re-established through individual practice business plans and budgets.
- Engagement structures including our Clinical and Commercial Advisory Group are being established. The CACAG which comprises representatives of the JVPs and Practice leaders, will have its first meeting mid-August 2019.

Longer term initiatives will however require development and are dependent upon the outcomes of current activities.

Irrespective of the timeframe of the specific initiative, however, the small business nature of the practices is now being embraced, developed and capitalised upon to build the type of business model and culture needed for scalable, sustainable success.

Revenue improvement initiatives

Fee Increases

An initial round of patient fee increases was expedited in March and will now being followed up with a more considered review of opportunities for additional fee increases as they arise.

Contact Centre

The Contact Centre consisting of nine people has been established and trained. It has initially concentrated on incomplete treatment plans but is now focused on reactivation and appointment booking for the substantial number of past patients not seen in the last 18 months. The Contact Centre operates Monday to Saturday on rosters appropriate to patient availability.

We have identified that upskilling some practitioners is an immediate opportunity for the business and we have established a relationship with a provider offering a fast track, fully integrated training programme, ongoing treatment planning and clinical support, and an image guided implant system that offers a quick implant solution with a high success rate (98%) and immediate post appointment return to work.

Marketing

Marketing is also a critical success factor and we have reviewed the strategy, effectiveness and supplier support. This involves, branding, national and local digital and non-digital marketing in an integrated and effective manner.

To complete the strategy work is necessary to convert Totally Smiles from a logo to an actual brand for each and every stakeholder (that is, what does it mean to be a Totally Smiles patient, a Totally Smiles practice team member, support office team member). The proposed new approach will be provided to JVPs for consideration before mid - August.

Other initiatives

The mobile dentistry business, which was temporarily closed due to operating performance, and has been progressively reactivated. Litigation initiated by and against the JVPs has been stayed, pending negotiations to resolve. Several key opportunities that will support the future potential and growth

of the mobile business have been identified and are being pursued. A General Manager for this was appointed on 22 July 2019.

The Woollahra practice which unfortunately suffered with the sudden death of its JVP has been returned to profit and is transitioning away from its specialised past.

Two non-core practices have been identified for sale and are under negotiation.

Several other currently unprofitable practices are being remediated and returned to profit.

Capital Raising and Financing

On 21 June the company issued 8,689,945 new shares at 14 cents to raise \$1.2 million to fund past losses. This support from some shareholders at relatively short notice was very much appreciated.

In addition, following a review of the turnaround plan, of the Company's primary bankers (National Australia Bank) have conditionally agreed to extend its facilities, initially until the end of November 2019.

Director Appointment

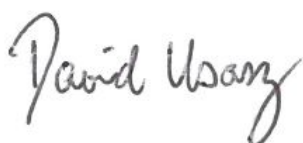
This month we welcomed current JVP, Mr Peter Fuller to a Non-Executive role with the Board. Peter has over 30 years' experience in the dental industry, as well as substantial experience in building and running dental practices.

Conclusion

The performance of Smiles to date is disappointing, however, investors can be assured with the support of our JVPs, staff, bankers and suppliers, every effort is being made to stabilise, consolidate and turnaround the business in FY20 and return it to acceptable levels of performance.

We thank you for your continued support.

Yours faithfully



David Usasz
Chairman



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