



ABN 27 621 105 824
ACN 621 105 824

5 September 2019

Lisa Banh
Senior Adviser, Listings Compliance (Sydney)
ASX Compliance Pty Ltd
20 Bridge Street
Sydney, NSW 2000

Email ListingsComplianceSydney@asx.com.au

Dear Lisa

Response to Aware Query

Smiles Inclusive Limited (ASX: **SIL**) (**Company**) refers to your letter dated 2 September 2019 regarding the Appendix 4E Preliminary Final Report (the '**Appendix 4E**') announced through the ASX Market Announcements Platform on 30 August 2019.

The Company provides the following responses to your questions:

- 1. Does SIL consider that the net loss for FY2019 of \$18,878,000 is information which is material to the price or value of SIL's securities within the meaning of listing rule 3.1?**

No. SIL formally withdrew all guidance on 24 April 2019, and also noted in the announcement that additional matters may be raised by the company's auditors. SIL also released announcements on 26 April 2019, 29 May 2019, and 31 July 2019, where it referred to various operational issues that continued to have an effect on performance.

Accordingly, SIL's view is that the market would have been aware that impairment of goodwill was a possibility. This is supported by the fact that share price and volume did not move materially following the announcement.

- 2. If SIL's answer to question 1 is 'yes', please advise.**

Not applicable.

- 3. Please advise**

- a. when SIL became aware that its Goodwill would be subject to an impairment of \$13,700,000; and**

After close of trade on 30 August 2019.

The Board continually monitors the Company's financial performance with reference to guidance and factors particular to the Company. Matters considered have historically been and will continue to be both positive and negative, and performance at a practice level has historically been subject to some inconsistency.

The accounting treatment for a business that owns 56 distinct dental practices operating independently across the country is inherently complex, and determining impairments is

particularly difficult where some practices are performing better than others at different times of the year.

SIL has and continues to work constructively with its auditor and met with its auditor to discuss impairment on the afternoon of 30 August 2019.

Whilst SIL's accounts remain subject to audit, SIL's auditor has not expressed a definitive view on impairment, the Company's board met to consider the Appendix 4E late on 30 August 2019 and resolved to impair goodwill by a net\$13.7m.

- b. if the answer to question 3 a) is prior to 30 August 2019, whether that fact was disclosed on MAP prior to SIL's lodgement of the Appendix 4E, and if not, why not**

Not applicable.

- 4. Referring to SIL's statement reproduced at sub-paragraph E. ii. above to the effect that its internal management accounts for July 2019 record a small positive EBITDA, please clarify whether that statement refers to EBITDA at a practice-level (and exclusive of corporate costs) or consolidated EBITDA (and therefore inclusive of corporate costs).**

SIL's internal management accounts for July 2019 recorded a small positive EBITDA inclusive of corporate costs.

- 5. Please provide a reconciliation of the 'statutory loss after tax' to the 'underlying loss after tax' for the year ended 30 June 2019, and advise whether any items and/or amounts in the reconciliation provided for the half year ended December 2018 in the Appendix 4D have been revised or reclassified in the reconciliation for FY2019.**

A reconciliation of SIL's statutory and underlying results for the year ended 30 June 2019 and the half year ended 31 December 2019 is below.

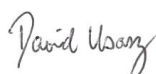
Reconciliation from Statutory to Underlying Financial Results	30 June 2019 \$'000	31 December 2018 Restated \$'000	Reclassifications \$'000	31 December 2018 \$'000
Statutory loss after tax	(18,878)	(1,592)	-	(1,592)
Integration costs	549	494	(1,060)	1,554
Business acquisition costs: once-off costs	391	184	(335)	519
Significant practice events	-	-	(930)	930
Impairment of assets	13,700	-	-	-
Income tax effect of adjustments	(259)	(187)	639	(826)
Underlying Profit/(loss) after tax	(4,497)	(1,101)	(1,686)	585

SIL confirms that amounts in the reconciliation provided for the half year ended December 2018 in the Appendix 4D have been reclassified in the reconciliation for FY2019.

The reclassification items in respect of business acquisition and integration costs consist of wages and contractor payments. The personnel providing the services, although initially engaged for integration activity, remained in the business assisting with normal operating activity. As such, the reclassification reflects the costs to run the business at that time.

In the case of the reclassification of the significant business events items, these relate to the matters regarding our Smiles on Site and Woollahra practices and the untimely deaths of the business manager and practice lead, respectively. As part of our subsequent banking covenant assessment, these were deemed not be significant practice events, and we have adjusted our reporting accordingly. This is consistent with our market announcement on 4 March 2019.

Yours faithfully



David Usasz
Chairman



5 September 2019

Reference: 06511

Ms Emma Corcoran
Company Secretary/CFO
Smiles Inclusive Limited
PO Box 382
West Burleigh, QLD 4219

By email

Dear Ms Corcoran,

Smiles Inclusive Limited ('SIL'): Query Letter

ASX refers to the Appendix 4E Preliminary Final Report (the 'Appendix 4E') released by SIL on the ASX market announcements platform ('MAP') on 30 August 2019.

Background

- A. On 28 February 2019, SIL released an Appendix 4D Half Year Report (the 'Appendix 4D') on MAP which disclosed results for the six months ended 31 December 2018, including (on page 1, under 'Results for Announcement to the Market'):
- i. Statutory Financial Results of:
 - a. Revenue from ordinary activities = \$16,132,000
 - b. Net profit/(loss) attributable to members = (\$1,592,000)
 - ii. 'Underlying Financial Results' (defined as 'non-IFRS profit measures used by Directors and Management to assess the underlying performance of the Group which have not been audited/reviewed') of:
 - a. Revenue from ordinary activities = \$15,396,000
 - b. Net profit/(loss) from ordinary activities = \$585,000
 - iii. Figures described as the reconciliation of the figures at sub-paragraphs A. i. and ii. of:
 - a. Statutory net profit/(loss) after tax = (\$1,592,000)
 - b. Integration costs = \$1,554,000
 - c. Business acquisition costs = \$519,000
 - d. Significant practice events = \$930,000
 - e. Income tax effect of adjustments = (\$826,000)
 - f. Underlying net profit/(loss) after tax = \$585,000
- B. On 28 February 2019, SIL also released an announcement on MAP titled 'Half year results, management changes and guidance' which included the following statement:

'The turnaround plan being implemented is a priority and the Board is confident that it will deliver a substantial improvement in business performance over time. The Company expects to report a statutory loss of between \$0.5m and \$1m for FY1 as these actions take place.'

- C. On 24 April 2019, SIL released an announcement on MAP titled 'Withdrawal of FY19 guidance' which included the following statements:

'Smiles Inclusive Limited (ASX:SIL) has reviewed its FY19 earnings guidance with reference to its management accounts for February and March 2019 and other matters that have been announced to ASX.

The Company expects to incur a statutory loss of at least \$4 million for FY19.

The factors relevant to the Company's financial performance include: ...

Given the ongoing uncertainty in relation to these matters, the Company withdraws all previous guidance and does not consider it is appropriate to provide earnings guidance at this time.'

- D. SIL's Appendix 4E discloses results for the 12 months ended 30 June 2019, including (on page 1, under 'Results for Announcement to the Market'):

- i. Statutory Financial Results of:

- a. Revenue from ordinary activities = \$30,590,000
- b. Net profit/(loss) attributable to members = (\$18,878,000)

- ii. 'Underlying Financial Results'¹:

- a. Revenue from ordinary activities = \$30,590,000
- b. Net profit/(loss) from ordinary activities = (\$4,497,000)

- iii. Figures described as the reconciliation of the figures at sub-paragraphs D. i. and ii. of:

- a. Statutory net profit/(loss) after tax = (\$18,878,000)
- b. Integration costs = \$549,000
- c. Business acquisition costs: once-off costs = \$391,000
- d. Impairment of assets = \$13,700,000
- e. Income tax effect of adjustments = (\$259,000)
- f. Underlying net profit/(loss) after tax = (\$4,497,000)

- E. SIL's Appendix 4E also includes the following statements / results:

- i. *'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.'*
- ii. *'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.'*
- iii. *'In accordance with accounting standards, the Group reviewed its Goodwill balance at 30 June 2019, resulting in a net impairment of \$13.7 million'.*
- iv. At note 6 to the report ('Intangible Assets'):

¹ Defined at sub-paragraph A. ii.

	<i>June 2019</i>	<i>June 2018</i>
	<i>\$'000</i>	<i>\$'000</i>
<i>Goodwill</i>	62,904	62,208
<i>Net impairment losses</i>	(13,700)	
	49,204	

- F. ASX listing rule 3.1, which applied at all relevant times, 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.

Questions and 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. ASX notes that:
 - a) Both the Appendix 4D and the Appendix 4E present 'statutory financial results' and 'underlying financial results'.
 - b) The Appendix 4E discloses a statutory net loss for the year ended 30 June 2019 of \$18,878,000, which significantly exceeds:
 - i) the net loss reported for the half year ended 31 December 2018 in the Appendix 4D of \$1,592,000; and
 - ii) SIL's statement in the 24 April 2019 announcement that it expected to incur a statutory loss for the full year of 'at least' \$4 million.

Does SIL consider that the net loss for FY2019 of \$18,878,000 is information which is material to the price or value of SIL's securities within the meaning of listing rule 3.1?

2. If SIL's answer to question 1 is 'yes', please advise:
 - a) when SIL first became aware that its statutory earnings result for the year ended 30 June 2019 would be a net loss substantially in excess of \$4 million; and
 - b) if the answer to question 2 a) is prior to 30 August 2019, whether that fact was disclosed on MAP prior to SIL's lodgement of the Appendix 4E, and if not, why not.
3. Please advise:
 - a) when SIL became aware that its Goodwill would be subject to an impairment of \$13,700,000; and
 - b) if the answer to question 3 a) is prior to 30 August 2019, whether that fact was disclosed on MAP prior to SIL's lodgement of the Appendix 4E, and if not, why not.
4. Referring to SIL's statement reproduced at sub-paragraph E. ii. above to the effect that its internal management accounts for July 2019 record a small positive EBITDA, please clarify whether that statement refers to EBITDA at a practice-level (and exclusive of corporate costs) or consolidated EBITDA (and therefore inclusive of corporate costs).
5. Please provide a reconciliation of the 'statutory loss after tax' to the 'underlying loss after tax' for the year ended 30 June 2019, and advise whether any items and/or amounts in the reconciliation provided for the

half year ended December 2018 in the Appendix 4D (see sub-paragraph A. iii. above) have been revised or reclassified in the reconciliation for FY2019 (see sub-paragraph D. iii. above).

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 **12pm AEST on Thursday, 5 September 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.

For the purpose of preparing its answers to the above questions concerning when it was aware of particular matters, ASX also directs SIL to the following definition in chapter 19 of the listing rules²:

<i>aware</i>	<i>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.</i>
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ASX reserves the right to release a copy of this letter and your response on MAP 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. 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.

Enquiries

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

Yours sincerely,

Lisa Banh
Adviser, Listings Compliance (Sydney)

² Refer also to the commentary at section 4.4 in Guidance Note 8.