



ABN 27 621 105 824
ACN 621 105 824

ASX announcement

31 July 2020

Appendix 4C quarterly cash flow report and business update

Smiles Inclusive Limited (ASX: SIL) today releases its Appendix 4C cash flow report for the quarter ended 30 June 2020.

Receipts from customers for the quarter of \$4.0 million were materially impacted by the global COVID-19 pandemic and associated shutdown of all practices in late March and April. As a result, the business experienced a rapid decline in revenue from the previous quarters. Total cash receipts from customers for the 2020 financial year were \$38.7 million.

The Company received \$1.3 million in Government support through the JobKeeper Program in addition to \$25k in payroll tax refunds.

Cash payments from operating activities of \$5.2 million (including \$42k paid to the CEO & Managing Director) represented a significant decrease from the previous quarter (ended 31 March 2020) of \$11.2 million – a direct result of the proactive execution of the Company's multi-faceted strategy and delivery of cost reduction initiatives implemented. Amongst these measures, all Non-executive Directors waived their emoluments for the quarter.

As previously announced, the Company was advanced a short-term loan of \$0.2 million HOLZRC Pty Ltd (**HOLZRC**) during the quarter to assist with working capital. Options to acquire 4,000,000 fully paid ordinary shares in the Company were granted to HOLZRC, who elected to immediately exercise the options and set off the exercise price of \$100,000 against the short-term loan.

The Company is continuing to progress its options in regards to a capital raising and looks forward to providing an update in due course.

This announcement has been approved for release by the Board.

For further information please contact:

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Appendix 4C

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Name of entity

Smiles Inclusive Limited

ABN

27 621 105 824

Quarter ended ("current quarter")

30 June 2020

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	4,037	38,722
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(1,402)	(19,911)
(c) advertising and marketing	(96)	(521)
(d) leased assets	-	-
(e) staff costs	(3,484)	(19,216)
(f) administration and corporate costs	(259)	(3,309)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	(2)
1.5 Interest and other costs of finance paid	(5)	(2,044)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives *	1,330	1,330
1.8 Other (provide details if material)		
(a) Non-underlying costs	-	(214)
(b) JVP profit share expense	(121)	(523)
1.9 Net cash from / (used in) operating activities	0	(5,688)

* In Q4 FY20, the Company received Australian Federal Government Jobkeeper payments of \$1,305k and Australian state Payroll Tax refunds of \$25k.

2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(22)	(195)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
	(d) investments	-	-
	(e) intellectual property	-	-
	(f) other non-current assets	-	-
2.2	Proceeds from disposal of:		
	(a) entities	-	-
	(b) businesses	-	1,863
	(c) property, plant and equipment	-	-
	(d) investments	-	-
	(e) intellectual property	-	-
	(f) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	(7)
2.6	Net cash from / (used in) investing activities	(22)	1,661

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	3,777
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	100	100
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-	(234)
3.5	Proceeds from borrowings	200	526
3.6	Repayment of borrowings	(100)	(189)
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
	(a) Leasing Payments	-	(1,225)
3.10	Net cash from / (used in) financing activities	200	2,755

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	145	1,595
4.2	Net cash from / (used in) operating activities (item 1.9 above)	-	(5,688)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(22)	1,661
4.4	Net cash from / (used in) financing activities (item 3.10 above)	200	2,755
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	323	323

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	323	145
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	323	145

6. Payments to related parties of the entity and their associates

- 6.1 Aggregate amount of payments to related parties and their associates included in item 1
- 6.2 Aggregate amount of payments to related parties and their associates included in item 2

Current quarter \$A'000
42
0

Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments.

During Q4FY20, \$42k was paid to the CEO & Managing Director under employment agreement. The Non-Executive Directors of the Company were not paid fees for director services during the quarter.

7. Financing facilities

Note: the term "facility" includes all forms of financing arrangements available to the entity.

Add notes as necessary for an understanding of the sources of finance available to the entity.

	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
7.1 Loan facilities	19,990	19,990
7.2 Credit standby arrangements	-	-
7.3 Other (please specify)	3,467	3,425
7.4 Total financing facilities	23,457	23,415

7.5 Unused financing facilities available at quarter end

42

7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.

¹ Loan facilities comprise of (\$A'000):

- Senior debt facility	\$14,342 ^(a)
- Working capital facility	\$ 4,063 ^(a)
- Third party loans	\$ 1,585 ^(c)
	\$19,990

² Other financing facilities comprise of (\$A'000):

- Credit card facility	\$ 500 ^(a) (\$458k drawn at quarter end)
- Equipment lease facility	\$ 2,967 ^(b)
	\$ 3,467

(a) Balances are inclusive of interest (3.13% at the end of the quarter) and other charges incurred that have been capitalised on the Senior debt facility and Working capital facility. The Group has entered into negotiations with potential financiers to provide funding to repay existing facilities and raise additional working capital. In accordance with the security arrangements of the facilities, all current and non-current assets of the Group are secured by floating charge except as identified below. The Senior debt facility has a maturity date of 31 March 2023 and the Working capital facility has a maturity date of 31 August 2020. The credit card facility is rolling facility.

(b) The Group has secured an equipment leasing facility to assist with the financing of key items of capital expenditure. In accordance with the security arrangements of the equipment lease facility, specific non-current property plant and equipment items are secured against the facility. The master agreement has a five year term ending 1 October 2023.

(c) The Group has received unsecured financing from third parties to assist with turnaround plans and working capital. The third party loans in existence at the start of the quarter have an interest rate of 9.95% pa and a repayment date upon agreement between Smiles and the lender anytime after 30 June 2020. During the quarter a net increase in third party loans of \$100,000 was received from HOLZRC Pty Ltd, which has an interest rate of 10.0% and a repayment date upon agreement between Smiles and HOLZ anytime after 27 July 2020.

8.	Estimated cash available for future operating activities	\$A'000
8.1	Net cash from / (used in) operating activities (Item 1.9)	0
8.2	Cash and cash equivalents at quarter end (Item 4.6)	323
8.3	Unused finance facilities available at quarter end (Item 7.5)	42
8.4	Total available funding (Item 8.2 + Item 8.3)	365
8.5	Estimated quarters of funding available (item 8.4 divided by item 8.1)	N/A

Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.

8.6 If Item 8.5 is less than 2 quarters, please provide answers to the following questions:

8.6.1 Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?

Answer: Not applicable.

8.6.2 Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?

Answer: Not applicable.

8.6.3 Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Answer: Not applicable.

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Date: 31 July 2020

Authorised by: By order of the Board



Andrew Ritter – Company Secretary
(Name of body or officer authorising release – see note 4)

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, AASB 107: *Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.

3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.