

Note 4: The Company has had significant “one-off” outlays for the quarter associated with full year insurance costs, settlement of litigation matters and restructure costs.

In the quarter ended December 2019, the company had significant cash outflows related to insurance (approximately \$400,000), litigation settlement (approximately \$182,000) legal costs (approximately \$150,000, inclusive of other settlement amounts) and restructure costs associated with marketing and branding efforts (approximately \$50,000). These costs were not considered representative of the true underlying costs of the business either as a result of their amount, their timing or their existence. As an example, the insurance costs that were entirely funded out of working capital for the quarter had previously been paid progressively over a year. Their existence is not abnormal; however, **their timing is abnormal and not comparable to the previous cash flows associated with the business. SIL’s turnaround plan sets out initiatives to smooth cash flows so events like these do not have such a dramatic effect.**

4. ASX refers to the figures reported by SIL for:
- actual manufacturing and operating costs.
 - estimated manufacturing and operating costs.
 - actual staff costs; and
 - estimated staff costs,

in the Appendix 4Cs summarised in Annexure A.

Given the absence of an apparent downward trend in these overheads, is SIL in a position to provide more detail regarding the “several discrete initiatives, which vary in complexity” comprising its turnaround plan?

As previously disclosed, **SIL is considering both revenue improvement and costs reduction initiatives to improve performance.** Without limitation, the company has undertaken the following discrete activities:

- Preliminary improvement to its online booking facilities and a bespoke digital patient reactivation trial, with myhealth1st.
- Upskilling of practitioners through the completion of externally provided training programs concerned with high value services offerings such as implant dentistry, as previously disclosed.
- Upskilling of practice managers through provision of training days in Brisbane, Sydney and Melbourne.
- Development of further training programs to be rolled out in 2020, with respect to cosmetic and dento-facial rejuvenation.
- Proactive performance management and replacement of clinical and non-clinical personnel who were hindering performance.
- The ongoing reassessment and redesign of the support office functions designed to improve operational performance and reduce costs using technology and automation where possible and appropriate. For example, the company is in the process of implementing an automated integrated procurement management system improving purchasing power, purchase control, budget management and alleviating the business from the cost and time drains associated with the manual processing of approximately 60,000 invoices per annum.

Such fundamental changes to the operations of the business require substantial investment which will impact cashflows of operations for the next quarter. It is important to note that whilst the overall quantum of the company’s costs might not be immediately reducing, the nature of the spend is. We have had to change our staffing levels, activities and expenditures to meet our financial constraints – **overall, we expect expenditures to be similar (albeit with different composition) as revenues improve.**



Similarly, the company has been able to settle several significant legal matters and has seen a decrease in the corporate level distractions that have **hindered the ability of management to focus solely on the improvement of the business. The distraction and diversion of resources – both time and money – to address these matters has been very significant**, however SIL now considers that it can refocus its resources, including cash, to improving operations and shareholder value.

5. Please explain in detail the basis of SIL’s statement (reproduced in paragraph I ii above) that “it is seeing positive tangible change within the business (including in respect of cash flows on a like-for-like basis) as a result of the implementation of its turnaround plan.” (emphasis added).

As a result of the actions undertaken, and without limitation, **the company has begun to see tangible signs of improvement** in the following ways:

- Increased usage by patients of our online booking tools, as a result of the recent upgrades and improvements, and increases in the number of past patients returning to the business, as a result of the “reactivation efforts” which commenced in late December 2019. These two improvements have increased the number of patient bookings in the short term. The exact timing of the improvement for each practice is driven largely by the nature of the services of the practice which vary in complexity and price-point.
- Indications of future system efficiencies associated with process change and system implementation. Implementation of the procurement system is currently in testing phase (the project commenced late December 2019) and will be progressively rolled out across the business in March 2020. Early results show increased efficiency with ordering and invoice processing that will reduce the administrative burden, and cost, on the business as well as improved cost control and optimisation of the supply chain, supplier relationships and purchasing power.

The reference to cash flows on a like-for-like basis concerns underlying operating cash flows compared to prior periods after excluding the abnormal items noted above.

6. Please confirm that SIL is complying with listing rule 3.1 and that there is no information that should be given to ASX about its financial condition under that rule that has not already been released to the market.

SIL considers that it is complying with listing rule 3.1 and that there is no information that should be given to ASX about its financial condition under that rule that has not already been released to the market.

For personal use only



- 7. **Please confirm that SIL's responses to the questions above have been authorised and approved in accordance with its published continuous disclosure policy or otherwise by its board or an officer of SIL with delegated authority from the board to respond to ASX on disclosure matters.**

This response has been authorised and approved by the Board of SIL.

Regards

A handwritten signature in black ink that reads "David Usasz".

David Usasz
Chairman