

BUSINESS

Gold Coast dental rollup Smiles Inclusive reports negative cashflow of \$560,000 for July

The latest cashflow report from Gold Coast dental group Smiles Inclusive shows it continues to burn through cash despite substantial JobKeeper payments.

Alister Thomson, Business Editor, Gold Coast Bulletin

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THE latest cashflow report from embattled Gold Coast dental group Smiles Inclusive shows the company continues to burn through cash at a rapid pace despite substantial JobKeeper payments.

The first of its monthly reports released this afternoon shows the Burleigh-based company had negative cashflow of \$560,000 in July.

Smiles, which has had its [shares suspended](#) from trading on the ASX since March after failing to file its half-year results, had just \$152,000 in funding available, barely enough for a few weeks.

Customer payments came in at \$2.8 million - \$400,000 higher than the previous month - despite an adverse impact from the State of Disaster in Victoria.



 Smiles Inclusive shares are suspending from trading on the ASX. Photo: iStock

Smiles received \$636,000 in JobKeeper payments for the month.

However government funding and improved customer payments were not enough to stop the company from bleeding cash.

The company is banking on a recapitalisation plan to turn the situation around.

This involves a fully-underwritten capital raising by the end of this month and asset sales being used to pay back its main lender NAB \$12.347 million.

The company has used \$115,000 of the proceeds from the sale of its practice in Miranda, Sydney, to pay off part of the NAB debt. It says it will replace bank guarantees with those of third parties.

The \$12.347 million bank payment is due by September 11.

EARLIER: AUGUST 12

AN October date has been set for a showdown between Smiles Inclusive and [rebel dentists](#) moving to replace the board.

On Monday the three dentists – Dr Arthur Walsh, Dr Philip Makepeace and Dr John Camacho said the EGM will be held on October 8 at a time and place to be advised.

A spokesman for Smiles said: “The Smiles Inclusive board and management are focused on our strategy to turn around the business and achieve sustainable growth into the future. We will respond to any formal notice calling a shareholder meeting if and when it is received.”

Last week Dr Walsh, Dr Makepeace and Dr Camacho issued a statement saying they are [standing for election](#) to the board to address financial and corporate issues at the company. They say they have the support of Smiles’ largest shareholder, Dr Nguyen Thu Van Trinh of Canberra.

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Dr Van Trinh has a 16.42 per cent stake in the Smiles share register through her company entities Phi Long Investment Pty Ltd and CDentist Pty Ltd.

The meeting date is more than a year after the first EGM held on May 22, 2019, in Brisbane.

That meeting resulted in former CEO Mike Timoney [being dumped from the board](#) and Dr Camacho – the only dentist standing – failing to be elected.

Mr Timoney had called to spill the board after accusing the then management in place of being “renegades” and failing to follow proper boardroom procedure.

The meeting also resulted in defeat for former chair and Timoney ally David Herlihy.

Dr Makepeace, who was not involved in the first spill, said shareholders were faced with a different scenario compared to the first EGM.

“It is a different set of circumstances. Mike Timoney’s involvement last time around was quite a block for a lot of people.

“He does not hold any interest in the company at all now ([after selling his shares](#)).”

Dr Camacho said the EGM is “one last opportunity to determine the state the company is in”.

“Ourselves as unsecured creditors, as JVPs, have absolutely no clarity or transparency around what has happened to the financials of the company,” he said. Since listing Smiles has been bedevilled by problems including profit downgrades, a falling share price, boardroom infighting, legal problems and a class-action lawsuit.

Smiles shares have been [suspended since March 2](#) after the company failed to lodge its half-yearly accounts. Its FY19 result was a net loss of \$31 million.

It released its four-quarter cashflow report recently showing customer receipts fell from \$10.6m to \$4.037m while at the same time operating costs declined from \$5.7m to \$1.4m.

Staff costs also fell to \$2.154m net of JobKeeper payments, which came in at \$1.3m.

The third quarter report, which initially showed positive cashflow of \$500,000, had to be amended to negative cashflow of \$614,000 after mistakes were found following questioning by ASIC.

EARLIER:

FORMER dentists from embattled Gold Coast dental group Smiles Inclusive are calling for the entire board to be removed in an extraordinary general meeting.

Dr Arthur Walsh, Dr Philip Makepeace and Dr John Camacho this morning issued a statement saying they are all standing for election to the board to address financial and corporate issues at the company. They say they have the support of Smiles’ largest shareholder, Dr Nguyen Thu Van Trinh of Canberra.

Vietnam-born Dr Van Trinh runs Gungahlin-based Shine Dentists, which she opened in 2004.

On May 5 she [purchased 9.6 million shares in Smiles](#) from former CEO Mike Timoney for 1.1c per share becoming the largest shareholder in the process.

This morning a substantial holder notice was filed with the ASX showing Dr Van Trinh has a 16.42 per cent stake in the Smiles share register through her company entities Phi Long Investment Pty Ltd and CDentist Pty Ltd.

In the notice she signs over power of attorney to Dr Walsh, Dr Makepeace and Dr Camacho for the purposes of voting her stake towards resolutions at a company meeting.

A 5 per cent share of the register is needed to call an EGM.

Smiles shares have been [suspended since March 2](#) after the company failed to lodge its half-yearly accounts.

It released its four-quarter cashflow report on Friday showing customer receipts fell from \$10.6m to \$4.037m while at the same time operating costs declined from \$5.7m to \$1.4m.

Staff costs also fell to \$2.154m net of JobKeeper payments, which came in at \$1.3m.

The new call for an EGM comes more than 14 months after the last one was held and [resulted in defeat](#) for Mr Timoney who was dumped from the board and Dr Camacho who failed to get elected.

The three dentists calling for the new EGM have named their campaign ‘page 33’ – a reference to Smiles’ income statement in its prospectus prior to listing on the ASX.

The three have consistently maintained that the promises in the prospectus have not been delivered.

They also say they have engaged accounting firm RSM Australia to conduct a “rapid independent assessment” of the “trust state of Smiles’ financial condition and outlook”.

“The key findings of RSM’s assessment will be made public as a matter of urgency. We will also invite our JVP peers to provide feedback based on RSM’s findings,” Dr Walsh said.

Dr Makepeace said they take the lead from the “known fact” that the “best run” dental group in Australia is led by an experienced dentist – a reference to 1300SMILES founder Dr Daryl Holmes.

The three dentists last month delivered a submission to the Parliamentary Joint Committee on Corporations and Financial Services inquiry into litigation funding and the regulation of the class action industry.

They say class actions can provide a “meaningful deterrent” or “pragmatic remedy” to corporate governance and financial issues.

EARLIER:

EMBATTLED Gold Coast dental group Smiles Inclusive took four days to tell shareholders its chief finance officer had resigned – and another half-week to realise its cashflow had [dropped by \\$1.1 million](#).

The admissions are contained within a response to questions the ASX put to the company this month and released on Monday.

ASX says Smiles’ joint-venture partners were told on May 12 that [CFO Emma Corcoran](#) had resigned. It was officially announced three days later on May 15.

In response, Smiles said Ms Corcoran advised of her resignation on May 11, but it had not told ASX until May 15 because that was her “final formal day”.

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“The company (SIL) received Ms Corcoran’s resignation by email on 11 May 2020,” the Smiles statement reads. “Ms Corcoran continued to work for SIL after this date to assist with the half-year audit review and other handover matters.

“Her final formal day was 15 May 2020.”

Smiles said the resignation was voluntary.

The Smiles letter to the ASX reiterated the company position that it only became aware of the errors in its past cashflow reports on May 18.

Smiles lodged its March cashflow report on June 1, showing positive cashflow of \$500,000.

However, the company later released a revised cashflow report showing it actually had negative cashflow of \$614,000 – a difference of more than \$1.1 million.

The company said the mistakes were a result of “transposition and flow through errors” made when the original reports were lodged.

The Bulletin has made multiple attempts to contact Ms Corcoran, but she has declined to comment.

The Bulletin is not suggesting Ms Corcoran is responsible for the errors in the March cashflow report.

An ASX spokesman said in general companies only needed to make announcements relating to senior leadership changes on the date it occurred, which in this case was May 15.

“The company in question appears to have advised the market when the change occurred, in compliance with this listing rule obligation,” he said.

However, he said the exception would be if the resignation would be expected to have a material effect on the share price.

Smiles shares have been [suspended from trading](#) on the ASX since March 2 and last traded at 3.5 cents.