

SDI Limited

ABN 27 008 075 581

Appendix 4E Preliminary Final Report - 30 June 2017

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SDI Limited – Commentary Full Year Results, 30 June 2017

FY17 HIGHLIGHTS

- **Aesthetics sales up 12% in local currencies (AUD 9%)**
- **Australian direct export sales up 15% in local currencies (AUD 12%)**
- **Operating expenses up 0.6%**
- **Full year fully franked dividends up by 15%**
- **Borrowings decreased by \$1.6 million**

MELBOURNE, Australia – SDI Limited (ASX: SDI) is pleased to announce its results for the 12 months ending 30 June 2017. Profit after tax decreased by \$2.0 million to \$5.6 million compared to \$7.6 million for the previous year.

	FY 2017 (AUD)	FY 2016 (AUD)	Change %
Sales	74.1m	74.1m	Flat
EBITDA	12.4m	15.4m	(19.1)
NPBT	8.2m	11.1m	(26.2)
NPAT	5.6m	7.6m	(26.3)
Borrowings	4.1m	5.7m	(27.8)
Cash	5.8m	6.0m	(4.1)
Declared / Paid Dividends	2.3c	2.0c	15.0

Profit before tax decreased by \$2.9 million to \$8.2 million compared to \$11.1 million for the previous year. The current year's profit before tax includes \$0.5 million of unrealised currency losses due to the revaluation of assets held in foreign currencies.

Earnings before interest, tax, depreciation and amortisation (EBITDA) decreased by 19.1 per cent to \$12.4 million, compared to \$15.4 million for the corresponding period last year. Earnings per share for the 12 months ending 30 June 2016 decreased by 1.68 cents to 4.69 cents compared to 6.37 cents for the same period last year.

Sales reported in Australian dollars at \$74.1 million for the period showed no increase when compared to the corresponding period last year. SDI exports approximately 90 per cent of its products and when adjusted for currency movements, sales increased by 2.6 per cent.

Sales growth was driven by increased sales of Aesthetics (up 11.6% in local currency) and Whitening products (up 6.9% in local currency) offset by a continuing decline in Amalgam sales (down 7.4% in local currency), which represented 30.9 per cent of the company's total sales

Product Category Sales	Growth in Local Currency	Growth in AUD	Total AUD Sales
Aesthetics	11.6%	8.6%	33.2%
Equipment	(3.8%)	(3.5%)	8.9%
Whitening	6.9%	3.7%	27.0%
Amalgam	(7.4%)	(9.3%)	30.9%

In local currencies, Australian sales including direct exports (excluding intercompany sales) increased by 11.3 per cent. These price competitive export markets include Latin America, Africa, Asia, and some European markets.

SDI North America's sales decreased 6.5 per cent in local currency. The decline in North American sales was due to the restructuring of the sales force over the last 12 months and significant decline in Amalgam sales.

Sales in SDI Europe were flat in local currency. Europe has many different diverse markets within it and some markets performed better than others, such as France, Spain and UK (when adjusted for the weakening of Pound to the Euro), while European exports to non-EU countries weakened.

Brazilian sales increased by 7.6 per cent in local currency. SDI Brazil commenced packing some products in May 2016, and will continue to expand this process with the view of packing all of its Amalgam and Whitening products, which will lower importation costs allowing a more aggressive pricing model to compete with local manufacturers.

Company	Growth in Local Currency	Growth in AUD	Total AUD Sales
Aust. Sales (incl. Direct Exports)	11.3%	8.9%	34.2%
North America	(6.5%)	(9.7%)	25.5%
Europe	Flat	(4.6%)	31.3%
Brazil	7.6%	19.5%	9.0%
TOTAL	2.6%	0%	100%

Total operating expenses in Australian dollars increased by 0.6 per cent when compared to the previous year. Approximately 57 per cent of SDI's total operating expenses relate to its offshore subsidiaries and are subject to currency movements when reporting in Australian dollars. When adjusted for currency movements, expenses increased by 1.5 per cent.

The Company's total cash holdings for the 12 months decreased by \$0.2 million after further decreasing debt by \$1.6 million, increasing dividend payments by \$0.5 million, and the purchase of adjoining land for \$0.5 million. Inventories decreased by \$1.2 million, highlighting better inventory management due to improved manufacturing processes.

The Board of Directors has declared a final fully franked dividend of 1.3 cents per share which will be paid on 22nd September 2017. Total dividends for the 2017 financial year have increased by 15.0% to 2.3 cents, compared to 2.0 cents for the previous financial year.

The Directors have decided that the Company's Dividend Reinvestment Plan (DRP) will not be offered to Shareholders for this dividend payment.

About SDI Limited

Founded in 1972 and publicly listed on the Australian Securities Exchange in 1985, SDI Limited is a leading dental technology company that conducts research and development, manufacturing and marketing of specialist dental materials. SDI's products combine innovation and excellence to provide the ideal restorative materials for the dental profession.

All of SDI's products are manufactured in Victoria, Australia. SDI's products are distributed through distributors and retailers in over 100 countries throughout the world. SDI has offices and warehouses in Chicago, USA; Cologne, Germany; and Sao Paulo, Brazil.

1. Company details

Name of entity:	SDI Limited
ABN:	27 008 075 581
Reporting period:	For the year ended 30 June 2017
Previous period:	For the year ended 30 June 2016

2. Results for announcement to the market

				\$'000
Revenues from ordinary activities	down	-	to	74,066
Profit from ordinary activities after tax attributable to the owners of SDI Limited	down	26.3%	to	5,576
Profit for the year attributable to the owners of SDI Limited	down	26.3%	to	5,576

Dividends

	Amount per security Cents	Franked amount per security Cents
Final dividend for the year ended 30 June 2017 to be paid on 22 September 2017	1.3	1.3
Interim dividend for the year ended 30 June 2017 paid on 7 April 2017	1.0	1.0

Comments

The profit for the consolidated entity after providing for income tax amounted to \$5,576,000 (30 June 2016: \$7,566,000).

Earnings before interest, tax, depreciation and amortisation ('EBITDA') decreased by 19.1% to \$12,495,000 (30 June 2016: \$15,440,000).

EBITDA is a financial measure which is not prescribed by Australian Accounting Standards ('AAS') and represents the profit adjusted for specific items.

The following table summarises key reconciling items between statutory profit after tax and EBITDA:

	Consolidated 2017 \$'000	2016 \$'000
Profit after tax	5,576	7,566
Add: taxation	2,615	3,532
Add: interest expense	219	323
Less: interest income	(9)	(10)
Add: depreciation and amortisation	4,094	4,029
EBITDA	<u>12,495</u>	<u>15,440</u>

For further details refer to 'Commentary - Full year results' preceding this Appendix 4E.

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	<u>36.58</u>	<u>35.54</u>

4. Dividends

Current period

	Amount per security Cents	Franked amount per security Cents
Final dividend for the year ended 30 June 2017 to be paid on 22 September 2017	1.3	1.3
Interim dividend for the year ended 30 June 2017 paid on 7 April 2017	1.0	1.0

Previous period

	Amount per security Cents	Franked amount per security Cents
Final dividend for the year ended 30 June 2016 paid on 23 September 2016	1.2	1.2
Interim dividend for the year ended 30 June 2016 paid on 7 April 2016	0.8	0.8

5. Dividend reinvestment plans

The following dividend or distribution plans are in operation:

The Company has a Dividend Reinvestment Plan ('DRP'). However the Directors have decided that the DRP will not be offered to Shareholders for the dividend payments.

6. Audit qualification or review

The financial statements are currently in the process of being audited and an unqualified opinion is expected to be issued.

7. Attachments

The Appendix 4E Preliminary Final Report of SDI Limited for the year ended 30 June 2017 is attached.

8. Signed

Signed 

Date: 25 August 2017

Samantha Jane Cheetham
Managing Director
Melbourne

SDI Limited
Consolidated statement of profit or loss and other comprehensive income
For the year ended 30 June 2017



	Note	Consolidated 2017 \$'000	2016 \$'000
Revenue			
Sales revenue		74,066	74,077
Cost of goods sold		(29,625)	(27,988)
Gross profit		44,441	46,089
Other income	2	100	258
Expenses			
Selling and administration expenses		(32,829)	(32,642)
Research and development costs		(921)	(680)
Other expenses		(2,381)	(1,604)
Finance costs		(219)	(323)
Profit before income tax expense		8,191	11,098
Income tax expense		(2,615)	(3,532)
Profit after income tax expense for the year attributable to the owners of SDI Limited		5,576	7,566
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Net change in the fair value of cash flow hedges taken to equity, net of tax		-	(37)
Exchange differences arising on translation of foreign controlled entities		(397)	299
Other comprehensive income for the year, net of tax		(397)	262
Total comprehensive income for the year attributable to the owners of SDI Limited		5,179	7,828
		Cents	Cents
Basic earnings per share	3	4.69	6.37
Diluted earnings per share	3	4.69	6.37

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

	Note	Consolidated 2017 \$'000	2016 \$'000
Assets			
Current assets			
Cash and cash equivalents		5,754	6,001
Trade and other receivables	4	15,451	14,454
Inventories		17,135	18,365
Prepayments		818	550
Total current assets		39,158	39,370
Non-current assets			
Other receivables		1,124	1,165
Property, plant and equipment	5	18,121	18,334
Intangibles	6	22,859	21,533
Total non-current assets		42,104	41,032
Total assets		81,262	80,402
Liabilities			
Current liabilities			
Trade and other payables	7	4,551	4,375
Borrowings	8	1,137	2,521
Derivative financial instruments		62	-
Provision for income tax		248	1,516
Employee benefits		3,506	3,322
Total current liabilities		9,504	11,734
Non-current liabilities			
Borrowings	9	3,000	3,209
Deferred tax liability		2,206	1,488
Employee benefits		209	192
Total non-current liabilities		5,415	4,889
Total liabilities		14,919	16,623
Net assets		66,343	63,779
Equity			
Issued capital		12,890	12,890
Reserves	10	763	1,160
Retained profits		52,690	49,729
Total equity		66,343	63,779

The above consolidated statement of financial position should be read in conjunction with the accompanying notes

SDI Limited
Consolidated statement of changes in equity
For the year ended 30 June 2017



Consolidated	Issued capital \$'000	Reserves \$'000	Retained profits \$'000	Total equity \$'000
Balance at 1 July 2015	12,890	1,170	44,031	58,091
Profit after income tax expense for the year	-	-	7,566	7,566
Other comprehensive income for the year, net of tax	-	262	-	262
Total comprehensive income for the year	-	262	7,566	7,828
<i>Transactions with owners in their capacity as owners:</i>				
Transfer of revaluation reserve	-	(272)	272	-
Dividends paid (note 11)	-	-	(2,140)	(2,140)
Balance at 30 June 2016	<u>12,890</u>	<u>1,160</u>	<u>49,729</u>	<u>63,779</u>
Consolidated	Issued capital \$'000	Reserves \$'000	Retained profits \$'000	Total equity \$'000
Balance at 1 July 2016	12,890	1,160	49,729	63,779
Profit after income tax expense for the year	-	-	5,576	5,576
Other comprehensive income for the year, net of tax	-	(397)	-	(397)
Total comprehensive income for the year	-	(397)	5,576	5,179
<i>Transactions with owners in their capacity as owners:</i>				
Dividends paid (note 11)	-	-	(2,615)	(2,615)
Balance at 30 June 2017	<u>12,890</u>	<u>763</u>	<u>52,690</u>	<u>66,343</u>

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes

	Note	Consolidated 2017 \$'000	2016 \$'000
Cash flows from operating activities			
Receipts from customers		73,110	72,533
Payments to suppliers and employees		(60,454)	(61,272)
		12,656	11,261
Other revenue		100	258
Interest and other finance costs paid		(219)	(323)
Income taxes paid		(3,165)	(2,417)
Net cash from operating activities	12	9,372	8,779
Cash flows from investing activities			
Payments for property, plant and equipment	5	(2,678)	(2,433)
Payments for intangibles	6	(2,920)	(2,073)
Proceeds from disposal of property, plant and equipment		275	76
Net cash used in investing activities		(5,323)	(4,430)
Cash flows from financing activities			
Proceeds from borrowings		346	4,794
Dividends paid	11	(2,615)	(2,140)
Repayment of borrowings		(1,939)	(6,178)
Net cash used in financing activities		(4,208)	(3,524)
Net (decrease)/increase in cash and cash equivalents		(159)	825
Cash and cash equivalents at the beginning of the financial year		6,001	5,037
Effects of exchange rate changes on cash and cash equivalents		(88)	139
Cash and cash equivalents at the end of the financial year		<u>5,754</u>	<u>6,001</u>

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes

Note 1. Operating segments

Identification of reportable operating segments

The consolidated entity's operations consist of the manufacture of dental restorative products, tooth whitening systems and small dental equipment for sale to dental distributors, dental dealers and dentists worldwide.

Operating segments are determined using the 'management approach', where the information presented is on the same basis as the internal reports reviewed by the Board of Directors (identified as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources. The consolidated entity comprises four separate reportable operating segments which are primarily identified on the basis of subsidiary companies in different geographical markets.

Reportable segments

The consolidated entity's reportable segments are as follows:

SDI Australia:	SDI Limited
SDI Europe:	SDI Dental Limited (Ireland), SDI GmbH (Germany) and SDI Italy S.r.l (Italy)
SDI USA:	SDI (North America), Inc.
SDI Brazil:	SDI Brasil Industria e Comercio Ltda

SDI New Zealand Limited's segment result has been included under other segments as the results were judged immaterial for separate inclusion in the segment report.

Information detailing revenue by country has not been included as this information is not presented to the CODM, is not available and the cost to develop such information would be excessive.

Intersegment transactions

The segment revenues, expenses and results include transfers between segments. The pricing of the intersegment transactions is based on cost plus an appropriate mark-up, which reflects market conditions of the segment into which the sales are made. These transfers are eliminated on consolidation of the consolidated entity's financial statements.

Intersegment receivables, payables and loans

Intersegment loans are initially recognised at the consideration received. Intersegment loans receivable and loans payable that earn or incur non-market interest are not adjusted to fair value based on market interest rates. Intersegment loans are eliminated on consolidation.

Major customers

The consolidated entity has a number of customers to whom it provides products. No single customer represents 10% or more of the consolidated entity's revenue.

Note 1. Operating segments (continued)

Operating segment information

Consolidated - 2017	SDI Australia \$'000	SDI Europe \$'000	SDI USA \$'000	SDI Brazil \$'000	Other segments \$'000	Total \$'000
Revenue						
Sales to external customers	25,330	23,156	18,851	6,632	97	74,066
Intersegment sales	23,744	-	-	-	-	23,744
Total sales revenue	49,074	23,156	18,851	6,632	97	97,810
Total segment revenue	49,074	23,156	18,851	6,632	97	97,810
Intersegment eliminations						(23,744)
Total revenue						74,066
Segment results before tax	13,469	863	618	(57)	(100)	14,793
Inter-segment eliminations	(2,298)	-	-	-	-	(2,298)
Depreciation and amortisation	(3,723)	(211)	(52)	(103)	(5)	(4,094)
Interest revenue	1	-	-	8	-	9
Finance costs	(214)	-	-	(5)	-	(219)
Profit/(loss) before income tax expense	7,235	652	566	(157)	(105)	8,191
Income tax expense						(2,615)
Profit after income tax expense						5,576
Assets						
Segment assets	78,088	8,493	7,542	8,087	112	102,322
Intersegment eliminations						(21,060)
Total assets						81,262
Liabilities						
Segment liabilities	13,123	6,853	2,035	8,088	652	30,751
Intersegment eliminations						(15,832)
Total liabilities						14,919

Note 1. Operating segments (continued)

Consolidated - 2016	SDI Australia \$'000	SDI Europe \$'000	SDI USA \$'000	SDI Brazil \$'000	Other segments \$'000	Total \$'000
Revenue						
Sales to external customers	23,264	24,262	20,876	5,552	123	74,077
Intersegment sales	26,191	10,047	-	-	-	36,238
Total sales revenue	49,455	34,309	20,876	5,552	123	110,315
Total segment revenue	49,455	34,309	20,876	5,552	123	110,315
Intersegment eliminations						(36,238)
Total revenue						74,077
Segment results before tax	17,079	2,888	1,560	(341)	(111)	21,075
Inter-segment eliminations	(5,635)	-	-	-	-	(5,635)
Depreciation and amortisation	(3,668)	(221)	(51)	(84)	(5)	(4,029)
Interest revenue	-	1	-	9	-	10
Finance costs	(320)	-	-	(3)	-	(323)
Profit/(loss) before income tax expense	7,456	2,668	1,509	(419)	(116)	11,098
Income tax expense						(3,532)
Profit after income tax expense						7,566
Assets						
Segment assets	75,966	9,722	7,806	7,600	67	101,161
Intersegment eliminations						(20,759)
Total assets						80,402
Liabilities						
Segment liabilities	15,930	6,387	1,250	7,443	502	31,512
Intersegment eliminations						(14,889)
Total liabilities						16,623

Note 2. Other income

	Consolidated	
	2017 \$'000	2016 \$'000
Net foreign exchange gain	-	208
Interest revenue	9	10
Other income	91	40
Other income	100	258

Note 3. Earnings per share

	Consolidated	
	2017	2016
	\$'000	\$'000
Profit after income tax attributable to the owners of SDI Limited	5,576	7,566
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	118,865,530	118,865,530
Weighted average number of ordinary shares used in calculating diluted earnings per share	118,865,530	118,865,530
	Cents	Cents
Basic earnings per share	4.69	6.37
Diluted earnings per share	4.69	6.37

Note 4. Current assets - trade and other receivables

	Consolidated	
	2017	2016
	\$'000	\$'000
Trade receivables	13,682	13,239
Less: Provision for impairment of receivables	(85)	(101)
	13,597	13,138
Other receivables	1,854	1,316
	15,451	14,454

Note 5. Non-current assets - property, plant and equipment

	Consolidated	
	2017	2016
	\$'000	\$'000
Land and buildings - at cost	10,157	9,480
Less: Accumulated depreciation	(1,441)	(1,323)
	8,716	8,157
Plant and equipment - at cost	30,822	29,857
Less: Accumulated depreciation	(21,417)	(19,680)
	9,405	10,177
	18,121	18,334

Note 5. Non-current assets - property, plant and equipment (continued)

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

Consolidated	Land and buildings \$'000	Plant and equipment \$'000	Total \$'000
Balance at 1 July 2015	8,273	10,282	18,555
Additions	-	2,433	2,433
Disposals	-	(195)	(195)
Depreciation expense	(116)	(2,343)	(2,459)
Balance at 30 June 2016	8,157	10,177	18,334
Additions	677	2,001	2,678
Disposals	-	(391)	(391)
Depreciation expense	(118)	(2,382)	(2,500)
Balance at 30 June 2017	<u>8,716</u>	<u>9,405</u>	<u>18,121</u>

Note 6. Non-current assets - intangibles

	Consolidated 2017 \$'000	2016 \$'000
Development costs - at cost	23,753	20,425
Less: Accumulated amortisation	(8,488)	(7,465)
	<u>15,265</u>	<u>12,960</u>
Intellectual property - at cost	6,930	6,433
Less: Accumulated amortisation	(3,500)	(3,032)
	<u>3,430</u>	<u>3,401</u>
Development work in progress - at cost	4,164	5,172
	<u>22,859</u>	<u>21,533</u>

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

Consolidated	Development \$'000	Intellectual property \$'000	Development work in progress \$'000	Total \$'000
Balance at 1 July 2015	13,638	3,683	3,709	21,030
Additions	255	355	1,463	2,073
Amortisation expense	(933)	(637)	-	(1,570)
Balance at 30 June 2016	12,960	3,401	5,172	21,533
Additions	283	600	2,037	2,920
Transfers in/(out)	3,045	-	(3,045)	-
Amortisation expense	(1,023)	(571)	-	(1,594)
Balance at 30 June 2017	<u>15,265</u>	<u>3,430</u>	<u>4,164</u>	<u>22,859</u>

Note 7. Current liabilities - trade and other payables

	Consolidated	
	2017	2016
	\$'000	\$'000
Trade payables	2,457	2,308
Other payables and accrued expenses	2,094	2,067
	<u>4,551</u>	<u>4,375</u>

Note 8. Current liabilities - borrowings

	Consolidated	
	2017	2016
	\$'000	\$'000
Bank loans	1,137	2,319
Hire purchase liability	-	202
	<u>1,137</u>	<u>2,521</u>

Note 9. Non-current liabilities - borrowings

	Consolidated	
	2017	2016
	\$'000	\$'000
Bank loans	3,000	3,000
Hire purchase liabilities	-	209
	<u>3,000</u>	<u>3,209</u>

Note 10. Equity - reserves

	Consolidated	
	2017	2016
	\$'000	\$'000
Foreign currency reserve	400	797
Capital profits reserve	363	363
	<u>763</u>	<u>1,160</u>

Note 10. Equity - reserves (continued)

Movements in reserves

Movements in each class of reserve during the current and previous financial year are set out below:

Consolidated	Revaluation surplus \$'000	Foreign currency \$'000	Capital profits \$'000	Hedging \$'000	Total \$'000
Balance at 1 July 2015	272	498	363	37	1,170
Foreign currency translation	-	299	-	-	299
Hedging reserve - cash flow hedges	-	-	-	(37)	(37)
Transfer to retained profits	(272)	-	-	-	(272)
Balance at 30 June 2016	-	797	363	-	1,160
Foreign currency translation	-	(397)	-	-	(397)
Balance at 30 June 2017	-	400	363	-	763

Note 11. Equity - dividends

Dividends paid during the financial year were as follows:

	Consolidated	
	2017 \$'000	2016 \$'000
Final dividend for the year ended 30 June 2016 of 1.2 cents (2015: 1.0 cents) per ordinary share	1,426	1,189
Interim dividend for the year ended 30 June 2017 of 1.0 cents (2016: 0.8 cents) per ordinary share	1,189	951
	<u>2,615</u>	<u>2,140</u>

On 24 August 2017, the Directors declared a final dividend of 1.3 cents per share to be paid on 22 September 2017. This equates to a total estimated distribution of \$1,545,000, based on the number of ordinary shares on issue as at 30 June 2017. The financial effect of dividends declared after the reporting date are not reflected in the 30 June 2017 financial statements and will be recognised in subsequent financial reports.

Total dividends for the 2017 financial year increased by 15.0% to 2.3 cents compared to 2.0 cents in the previous year. The Directors decided that the Company's Dividend Reinvestment Plan ('DRP') not be offered to Shareholders for this dividend payment.

Note 12. Reconciliation of profit after income tax to net cash from operating activities

	Consolidated	
	2017	2016
	\$'000	\$'000
Profit after income tax expense for the year	5,576	7,566
Adjustments for:		
Depreciation and amortisation	4,094	4,029
Net loss on disposal of non-current assets	116	119
Foreign currency differences	(309)	160
Change in operating assets and liabilities:		
Increase in trade and other receivables	(956)	(1,544)
Decrease/(increase) in inventories	1,230	(1,797)
Decrease in deferred tax assets	-	94
Decrease in derivative assets	-	17
Decrease/(increase) in prepayments	(268)	64
Increase/(decrease) in trade and other payables	176	(1,134)
Increase in derivative liabilities	62	-
Increase/(decrease) in provision for income tax	(1,268)	1,194
Increase/(decrease) in deferred tax liabilities	718	(173)
Increase in employee benefits	201	184
Net cash from operating activities	<u>9,372</u>	<u>8,779</u>