



Good morning everyone and thank you for joining us for our first half result investor conference call for financial year 2020.

My name is Samantha Cheetham, the Chief Executive Officer and with me today is John Slaviero our Chief Financial Officer and Chief Operating Officer.

This is a very pleasing result with many of our milestones achieved in the half. With increased investment in sales and marketing activities, we are beginning to see strong growth in the product categories and in regions we are targeting. Gross margins have been particularly pleasing, reflective of a continuing shift towards our higher margin products.

We are continuing to make improvements in our manufacturing processes; we are investing in research and development and we are growing faster than our peers in the Global dental industry.

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Long successful operating history – founded in 1972 and listed on ASX in 1985 and Australia's largest dental manufacturer



SDI conducts research and development of specialist dentist materials undertaking the development, manufacturing and marketing of dental restorative materials.



SDI sells to 100+ countries on all continents and with sales teams and distribution in Australia, Brazil, Europe and North America

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2

Before talking about this result and sharing with you some of the highlights of the last six months, I wanted to recap on where we have come from.

Having been established in 1972 we have built this business into a successful manufacturing company where today we are exporting to more than a 100 countries.

Underpinning this success has been our continuing focus on research and development, and through this we have developed new and innovative products that meet the needs of our customers.

Let me now turn to the agenda for today's presentation.

# AGENDA

- HY 2020 highlights
- Product categories
- Key geographies
- Financial performance
- Strategy and outlook



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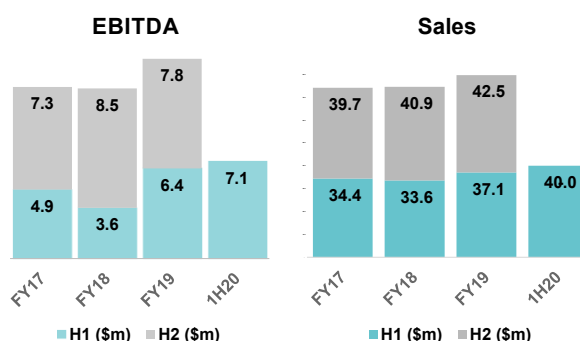
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I will begin with the highlights for the last six months, then spend some time talking about the product categories and the key geographies we operate in.

I will then turn over to John who will run through the financials before returning to me to talk about our strategy and outlook for the remainder of the financial year.

# HY 2020 HIGHLIGHTS

- Record first half profit with NPAT up 11.9% to \$3.5m
- First half sales up 7.7% to \$40.0m
- Gross Margins of 66.2% in local currency driven by product mix
- Aesthetic sales up 11.5% in local currency (up 15.3% in AUD)
- Whitening sales up 12.9% in local currency (up 16.3% in AUD)
- Amalgam sales fell 13.6% in local currency (down 10.6% in AUD) and represent 20.6% of sales
- Fully franked interim dividend of 1.35cps up 12.5%



Let's begin with a review of the highlights for the six months to December 2019.

I'm now on slide 4.

This was another record half for SDI, both in terms of sales, up 7.7% to \$40.0m, and net profit after tax, up 11.9% to \$3.5m.

Currency had some impact on sales in the period, but as we will discuss later in the presentation the local currency performance was very strong.

As we have spoken about in recent updates, the mix of product continues to drive strong growth and importantly favourable gross margins.

In this last half, we saw two of our key category sales, Aesthetics and Whitening, up 11.5% and 12.9% respectively, significantly ahead of market rates of growth.

Amalgam sales continues the trend we have seen in recent years with the US market, the largest region for this product's sales, the biggest detractor.

The favourable product and market mix has driven the improvement in the gross margins and in turn the improvement in the EBITDA.

Directors have declared a fully franked dividend for the half year of 1.35 cents per share, representing 12.5% on the previous period and broadly inline with the Net Profit After Tax growth of 11.9%.



Let's now turn to the product categories.

# AESTHETICS & WHITENING DRIVE GROWTH

- Aesthetics sales growth continuing with 11.5% growth in local currency (up 15.3% in AUD)
  - Whitening returns to growth, up 12.9% in local currency (up 16.3% in AUD)
  - Amalgam sales, fell 13.6% in local currency (down 10.6% in AUD)
- Growth in Aesthetics and Whitening products continue to track significantly ahead of market growth rates globally

Product Category Sales	Growth in Local Currency	Growth in AUD	% of Total AUD Sales
Aesthetics	11.5%	15.3%	45.7%
Whitening	12.9%	16.3%	26.6%
Equipment	(7.2%)	(4.1%)	7.1%
Amalgam	(13.6%)	(10.6%)	20.6%



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I am now on slide 6 to talk about the product growth drivers.

As mentioned in my opening remarks Aesthetics and Whitening sales growth have been the highlight for the period with local currency growth of 11.5% and 12.9% respectively, reflecting the continuing growth in these core products.

These products now represent over 72% of total sales, while Amalgam has continued its downward trend as seen in recent years.

Turning now to the key geographies.



# KEY GEOGRAPHIES



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# SALES BY BUSINESS UNIT

- The Australian business unit grew sales by 3.2% in local currency, including direct exports
- Europe sales grew 9% with Aesthetics and Whitening products continuing to gain share
- Brazil returned to growth with 21% growth in local currency terms, following investments in local manufacturing
- North American sales saw a 5% decline in local currency with weak Amalgam & Whitening sales the main detractor

Business Unit	Growth in local currency	Growth in AUD	% of Total AUD Sales
Australia*	3.2%	7.2%	38.5%
North America	(5.0%)	0.2%	22.2%
Europe	9.0%	10.9%	32.1%
Brazil	21.0%	23.3%	7.2%
<b>TOTAL</b>	<b>4.1%</b>	<b>7.7%</b>	<b>100.0%</b>

\*Australian business unit sales includes direct exports to other markets



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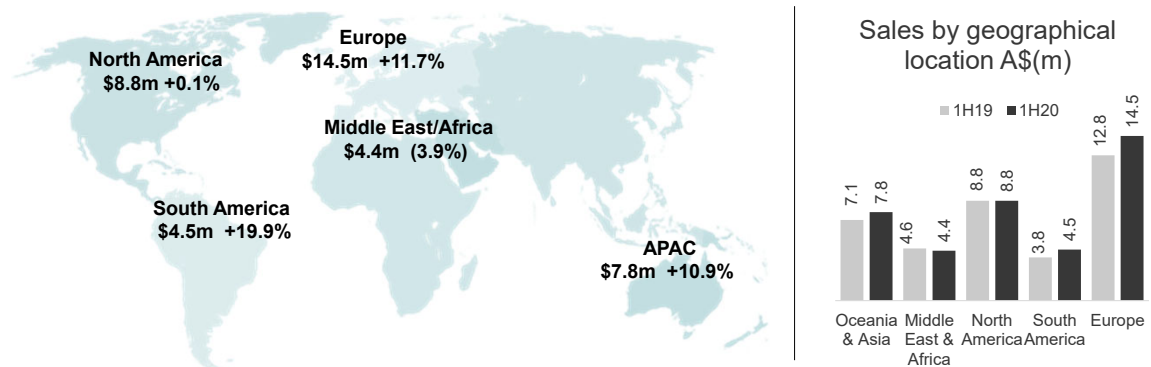
Slide 8 breaks down the sales by business units as disclosed in our accounts with local currency growth in Australia at 3.2%, Europe at 9.1% and Brazil at 21.0%.

Sales growth in Europe and Brazil were back on track after coming off a previous low base, with sales in non-Amalgam products increasing significantly faster than the decline in Amalgam sales, highlighting a lower reliance on Amalgam products in these markets.

The better way to look at our sales is on the next slide, slide 9.



# GEOGRAPHICAL SALES HY 2020



9

This slide shows the geographical sales and is more meaningful in understanding customer behaviour.

The strongest regions in the six months to December were South America, Europe and APAC with sales up 19.9%, 11.7% and 10.9% respectively in AUD terms.

As indicated earlier the strong sales performance was due to product sales in our two leading product categories, Aesthetics and Whitening.

Further, following investments we have made in building our local manufacturing capability for some products in Brazil, we are beginning to see strong performance in this market. These initiatives have enabled us to compete more effectively in this local market.

Finally, the APAC result has continued the trend seen in other regions with our leading products gaining traction.

In Australian Dollars, the North American market was flat (down 5.0% in local currency) for the period. Amalgam sales represent more than a third of sales in this market, were particularly weak in the six months to December. In addition to this, Whitening sales were also down which is being addressed with a new marketing campaign.

I will now hand over to John to talk though the financials.



# FINANCIAL PERFORMANCE



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10

# PROFIT & LOSS

Profit & Loss (\$'000)	HY 2020	HY 2019	% Change
<b>Revenue</b>			
Sales Revenue	39,963	37,103	7.7%
Cost of goods sold	(13,502)	(14,495)	(6.9%)
<b>Gross Profit</b>	<b>26,461</b>	<b>22,608</b>	<b>17.0%</b>
Gross margin	<b>66.2%</b>	<b>60.9%</b>	
Other income / (expense)	(407)	675	
<b>Expenses</b>			
Selling & Administration	(19,255)	(17,505)	10.0%
Research & Development	(901)	(648)	39.0%
Other Expenses	(945)	(684)	38.2%
<b>Profit before tax</b>	<b>4,953</b>	<b>4,446</b>	<b>11.4%</b>
Tax expense	(1,456)	(1,320)	10.3%
<b>Net profit after tax</b>	<b>3,497</b>	<b>3,126</b>	<b>11.9%</b>
Amortisation & depreciation	2131	1,919	11.0%
Net interest expense	35	27	
<b>EBITDA</b>	<b>7,119</b>	<b>6,392</b>	<b>11.4%</b>

- Gross product margins up 5.3% to 66.2%
- Favourable product mix in favourable regions and currency drive improved margins.
- Other Income includes \$707k of unrealised currency loss
- Operating expenses increased by 12.0% (adjusted for currency movements 9.7%) following a period of investment in sales & marketing, increased investment in research and some additional compliance costs.
- Amortisation expense of \$1.0m

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11

Thanks Sam.

I am now on Slide 11 – The Profit and Loss.

The key drivers as shown in this report are sales growth of 7.7% with gross margins up 5.3% to an impressive 66.2%.

As mentioned by Sam earlier this was in part driven by favourable currency, but has been mainly driven by sales of our higher margin products and in favourable higher margin regions.

Other income / expenses relates to unrealised currency losses of \$707k, reversing the trend we saw in the prior period.

Operating expenses grew by 12.0% (9.7% in local currencies) with most of this growth attributable to increased sales, additional investment in sales, marketing and distribution, continued promotion of SDI's Aesthetics product strategy, additional sales staff, and increased investment in research. Excluding these additional investments, the underlying cost growth was 3.5% for the period.

Turning to the Balance sheet on slide 12.

# BALANCE SHEET

Balance Sheet (\$'000)	HY 2020	FY 2019	HY 2019
<b>Assets</b>			
Cash & cash equivalents	6,058	6,481	6,068
Trade & other receivables	14,203	17,780	15,059
Inventories	20,655	17,242	17,501
Prepayments	2,716	1,100	1,376
Other receivables	507	713	1,125
Property, plant & equipment	19,387	18,680	17,944
Right of use Assets	882		
Intangibles	25,298	24,603	23,967
<b>Total Assets</b>	<b>89,706</b>	<b>86,599</b>	<b>83,040</b>
<b>Liabilities</b>			
Trade & other payables	7,562	6,249	5,283
Provision for income tax	566	1,386	508
Employee benefits	3,499	3,516	3,387
Lease Liability	899		
Deferred tax liability	2,475	2,363	2,402
<b>Total Liabilities</b>	<b>15,001</b>	<b>13,514</b>	<b>11,580</b>
<b>Net Assets</b>	<b>74,705</b>	<b>73,085</b>	<b>71,460</b>

- Cash holdings at balance date were \$6.1m with no debt
- Inventory build due to Whitening product rebranding and a new light curing light, ahead of its release in 2H 2020
- New Accounting Standard for Leasing

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12

Today we have a healthy cash balance of \$6.1m and no debt, adding significant flexibility to be able to pursue further automation initiatives, to continue to invest in research and development and to increase returns to shareholders.

One other area that needs some additional attention is the increase in inventories. This increase is primarily due the initial stocking of packaging for the rebranding of the Whitening products and the new light curing light due for release to all markets this year. Our expectation is that inventory will return to normal levels in the second half.

Tuning to the cashflow statement on slide 13.

# CASH FLOW

Cash Flow (\$'000)	HY 2020	HY 2019	% Chg
Receipts from customers	43,746	38,029	15.0%
Payments to suppliers & employees	(36,826)	(32,792)	12.3%
Other revenue	4	6	
Interest & other finance costs paid	(41)	(33)	
Income tax paid	(2,164)	(1,029)	110.3%
<b>Net cash from operating activities</b>	<b>4,719</b>	<b>4,181</b>	<b>12.9%</b>
Payments for property, plant & equip.	(1,754)	(1,388)	26.4%
Payments for intangibles	(1,702)	(1,245)	36.7%
Proceeds from disposal of P P & E	187	27	
<b>Net cash used for investing activities</b>	<b>(3,269)</b>	<b>(2,606)</b>	<b>25.4%</b>
<b>Net cash used in financing activities</b>	<b>(1,783)</b>	<b>(3,878)</b>	<b>(54.0%)</b>
<b>Cash &amp; cash equivalents at end of period</b>	<b>6,058</b>	<b>6,068</b>	<b>0%</b>

- Increased inventory investment for rebranding in Whitening and a new product launch
- Continued investment in R & D
- New Accounting Standard on leasing

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13

As mentioned there was an increased investment in inventory with the rebranding of the whitening product and the new light curing light launch.

We also continue to invest in product development with \$1.1m spent in the period.

I will now hand back to Sam to run through the strategy and outlook for the remainder of the financial year.



# STRATEGY & OUTLOOK



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14

# STRATEGY & OUTLOOK

## 4 Strategic priorities:

1. Rationalise product portfolio
2. Focus on key product categories – whitening, glass ionomers and composites
3. Drive amalgam replacement
4. Increase innovation and speed to market

## Progress:

- Product rationalisation has seen a significant number of SKUs removed
- Key product categories, Aesthetics and Whitening, are driving growth
- Research is ongoing with 1 to 2 products brought to market each year
- Brazil manufacturing begins to make a significant contribution with further gains expected
- For FY20, we expect typical seasonal bias favouring the second half with Aesthetics and Whitening products (72% of sales) driving sales growth.



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15

Thanks John.

As shared with you previously our 4 strategic priorities are as follows:

1. Rationalise the product portfolio and focus on products that will drive the best returns;
2. Focus on key product categories for growth including Whitening, Glass Ionomers and Composites;
3. Drive amalgam replacement; and
4. Increase innovation and speed to market to meet the changing needs of dentists and their team.

On progress to date, I wanted to share with you some of the milestones we have achieved:

- We have made significant progress on our plans to rationalise SKUs' and expect to see this drive further operational efficiencies in our manufacturing process;
- Our focus on the core categories is driving strong growth ahead of our peers;
- We continue to invest in the development of new products which will be launched this year; and
- Our Brazilian manufacturing investment is beginning to yield returns.

On the outlook for the remainder of the financial year we expect to see the typical seasonal bias favouring the second half of the year with our two core categories continuing to drive sales growth.

Thank you for listening to our presentation. I will now return to the operator to the moderate for your questions.





**QUESTIONS**

16



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17