
FY20 AGM
November 13, 2020

I would also like to thank all attendees for joining us...virtually…at our Annual General Meeting for 2020.

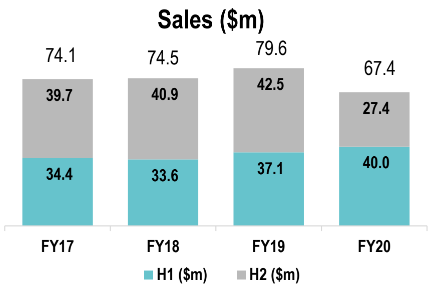
As part of my presentation I will run through SDI's financial performance for the year, discuss some of the challenges we have faced in the second half of the financial year, update you on the momentum we have seen as we start the new financial year, and finish with a recap on our strategy and outlook for the coming year.

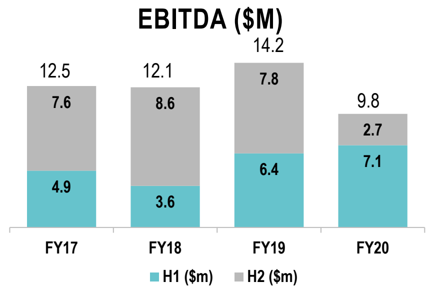
This has been one of the most challenging periods we have experienced as a business. Our immediate concerns were with the health and well being of our staff around the globe. I have been impressed by their willingness to take on the challenges we faced and together we have been able to continue to focus on our strategic goals.

The overall result reflects the challenges we faced but encouragingly, as I will share with you later, we have begun this new financial year with strong momentum as the dental industry has begun to reopen

FY20 SUMMARY

GROWTH MOMENTUM IMPACTED BY COVID-19 IN 2H20





- Total Sales down 15.4% to $67.4m with 2H20 sales down by 35.6%; traditionally strong half for business
- Growth momentum achieved in 1H20 has paused in 2H20; sales declined as dentists were limited to emergency procedures only, due to worldwide government restrictions
- Gross margin up to 64.8% despite lower sales, highlighting the favourable change to product mix
- Final fully franked dividend per share of 0.50c
- Management reacted promptly to changing conditions, with Directors and management salaries reduced by 40%
- Costs carefully managed with YoY OPEX down 8.2%
- Devaluation of Brazilian Real (down 33% in 2H20) resulted in $1.4m currency loss; Brazilian operations pending strategic review
- Despite challenging operating conditions, the business remained profitable in 2H

3

As mentioned in my opening remarks this was a challenging end to the financial year, following on from a record first half. Sales were down 15.4%, with the second half down 35.6% on the prior corresponding period. The restrictions imposed by governments in our key markets impacted sales and earnings materially, with dentists limited to emergency procedures only. Given these challenges we reacted quickly, seeing operating costs falling by 8.2%, including directors and management salaries being reduced by 40%.

While incredibly challenging, we were pleased to have seen the gross margins improve again, favoured by the product mix shift we continue to see from period to period, and importantly, the business overall was profitable in the half.

With the business operating in 100 countries, currency can impact the reported outcomes. In this period, the biggest impact was from the Brazilian Real, which cannot be hedged, falling 33% in the second half of the financial year and resulting in a $1.4m unrealised currency loss. We commenced a strategic review, and I will share with you later the decisions we have taken for this important region for the group

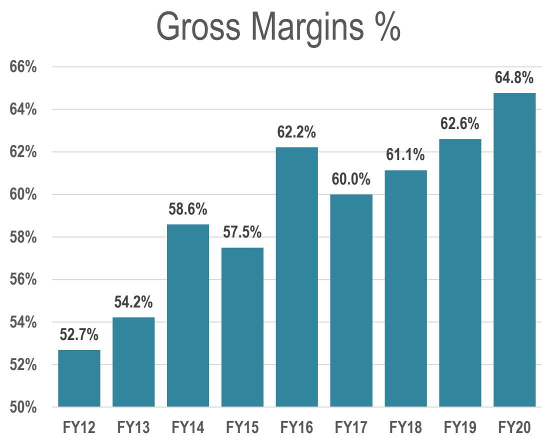
Directors have declared a fully franked final dividend for the half year of 0.50 cents per share, representing 1.85 cent per share for the full year or approximately a 52% payout ratio.

Let's now turn to the product categories.

CATEGORY OVERVIEW

MOMENTUM IMPACTED BY COVID-19 WITH PRODUCT MIX CONTINUING TO DRIVE GROSS MARGIN

- Government restrictions impacted demand in all product groups, with dentists limited to emergency procedures
- Record Sales momentum in 1H20 impacted by global pandemic in 2H20, a traditionally the stronger half for the business
- Gross Margin improvement due to favourable product mix shift
  - Aesthetics (45.9% of sales) showed the smallest decline, down 9.1% (down 12.2% in local currency)
  - Whitening (26.9% of sales) and Equipment (7.6% of sales) down 15.4% and 14.9% (18.1% and 16.1% in local currency)
  - Amalgam (19.6% of sales) down 27.2% (down 29.7% in local currency)



4

I will now talk about the product performance and reflect on the mix affect on gross margins.

The global restrictions impacted all product categories; however, the relative trends are telling, with slower declines in our key aesthetic and whitening product categories.

The longer-term trends, shown on this slide, reflect the shift in our business over the last 8 years, underpinned by the investments made and the successful execution over this period of our strategy.

Amalgam has continued its downward trend, as seen in recent years, now representing less than 20% of total sales.

Finally, I wanted to share some other comments with you on the product mix and the impact on gross margins.

Despite this recent period, where we experienced slower sales, our strategy of pursuing the higher margin Aesthetics and Whitening products continues.

These two product categories combined, now represent 72.8% of sales, having grown from 43% of sales in 2012.

Importantly the gross margin continues to reflect this product shift. The chart shown here reflects the transition in product mix and importantly it's effect on gross margins, with the gross margin growing from 52.7%, 8 years ago, to 64.8% for the 12 months to June 2020.

BRAZIL RESTRUCTURE

REVIEW COMPLETE WITH NEW STRUCTURE SET TO DRIVE FUTURE GROWTH

- Moving from a Company structure to a low cost branch
- Rationalisation of customer base from 300 to 100 customers
- Reduction in sales, administration, warehousing and production staff from 26 to 10 employees
- Outsourcing of production and warehousing services
- Reduction in office and warehouse rent

5

Turning to Brazil.

As indicated at the full year result we commenced a strategic review on our business and its structure in Brazil.

Our core aim was to strike the right balance between maintaining a presence in this important market and the financial risks that have been associated with currency fluctuation.

The review is now complete and we believe that, with our decision, the business is now structured appropriately for future growth.

In summary
- we transitioned the business from a company structure to a lower cost branch structure;
- we have sought to rationalise the customer base by two thirds;
- we have more than halved the headcount in the areas of sales, administration and warehouse & production staff and outsourced these services;
- And finally we have seen a reduction in the office and warehouse rent costs.

TRADING UPDATE

STRONG START TO THE FINANCIAL YEAR

- Strong first quarter in most regions (local currency)
  - Australia Domestic up 28%
  - North America up 15%
  - Brazil up 37%
  - Europe (ex-UK) up 25%
  - UK down 80%
  - Australian Direct Exports down 22%
  - Total sales down 1%
- Operating Expenses down 20% - (down 12% excluding Government assistance)
- Gross Product Margins down 1%

6

Turning to our trading update.

We have begun the new financial year with strong momentum as we saw the gradual easing of restrictions by many governments post June 30.

While not every region has rebounded, those that have begun to open have shown that sales were not lost but merely deferred. This has seen an unseasonal large September quarter, a typically slower quarter for the financial year.

Highlights include:
- the Australian domestic market with sales up in the first quarter of the year by 28%, on the same quarter last year;
- North American sales up 15%;
- Brazil up 37%; and
- Continental European sales up 25% for the first quarter of this financial year.

Weaker areas included the UK, which continues to be impacted by government lockdowns, down 80% on the same period last year. Similarity, Australian Direct Exports were down 22% on last year. Overall sales are broadly in line with the same period last year.

Encouragingly the operating costs were well managed, down 20% or down 12% when excluding the benefits from various government support packages, and gross margins were broadly in line with last year.

In summary, this is a strong start to the year. We have seen the pent-up demand turn onto sales in the first quarter, but we are conscious that government restrictions can play a significant role.

STRATEGY & OUTLOOK

CLEAR STRATEGY AND POSITIVE OUTLOOK

STRATEGY

- 45% SKUs reduction expected to drive further efficiencies
- On-going investment in R&D with the release 1-2 products per year
- Pola Light USA and Australian launches performing very well
- Amalgam replacement product on schedule for release in 2023

OUTLOOK

- Strong start to the financial year, despite little contribution from the UK
- Operating expenses continue to be managed and gross margins to be maintained
- Continued product mix shift with growth tracking as expected in Aesthetic and Whitening, and continued decline in Amalgam products
- Inventory levels expected to be at normal levels by December 2020
- No debt by December 2020

7

Finally, I want to discuss our strategy and outlook for the coming year.

We continue to drive our strategic priorities.

Over this last year we have completed the rationalisation of the product portfolio, with a 45% reduction of SKUs. This is expected to drive further production efficiencies;

Secondly, the on-going investment in research and development to release one to two products per year is on target, with the most recent launch of the Pola Light in the US and Australia, a new innovative tooth whitening system is performing well; and
Finally, SDI's Amalgam replacement product, which we continue to work on, is on track to be released in 2023.

Looking ahead we expect the 2021 financial results will follow similar trends to previous years, highlighting strong growth in both the Aesthetic and Whitening products and the continued decline in Amalgam products.

We have made a strong start to the financial year, offset by the weakness in the UK and Australian Direct Exports.

We are managing our costs well and expect gross margins to be maintained, continuing to benefit from the ongoing product mix shift we have seen over many years.

Finally, on the balance sheet with continued trading improvements we expect inventory levels to return to normal levels and finally we expect to once again end the year with no debt.

That concludes my presentation.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Thankyou

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