YOUR SMILE. OUR VISION.
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ASX and Media Release
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Half Year Results Announcement for 1H FY23

SDI Limited reports a record half year of revenues with investments made to support scale.

MELBOURNE, Australia – SDI Limited (ASX: SDI). Net profit after tax of $2.7 million for the six months ending 31 December 2022, equal to the previous period last year.

Summary financials (AUD)	HY 2023	HY 2022	Change %
Sales ($m)	50.5	46.3	9.0
Gross Product Margin (%)	56.2	52.4	7.3
EBITDA ($m)	6.1	6.0	0.1
NPAT ($m)	2.7	2.7	0.9
Earnings per share (cents)	2.28	2.26	0.9
Cash on Hand	6.0	6.5	(7.7)
Short Term Borrowings	9.0	-	100.0
Long Term Borrowings	17.8	-	100.0
Interim ordinary dividend (cents)	1.50	1.50	-

1H FY23 Highlights

- Record total sales of $50.5 million, up 9.0% on the previous corresponding period (“pcp”), with strong growth in Aesthetics and Amalgam product categories, and strong growth from the European and Brazilian business units.
- Product margin improvement to 56.2%, up by 7.3% on pcp, reflecting price increases and some relief from lower logistic costs, however logistics costs remain high.
- Operating expenses of $25.1 million, up 22.8% on pcp, is driven by the return to normalised travel and exhibition costs, increase in marketing, and inflationary cost pressures.
- Increase in gross profit was offset by the increase in operating expense, resulting in a flat year on year EBITDA result of $6.1 million (1H FY22 $6.0 million).
- Earnings per share (‘EPS’) was up 0.02 cents to 2.28 cents compared to 2.26 cents for the same period last year.
- Cash position down with continued investment in research and development, and Capex.
- Strategic purchase of six-acre site to support future growth was financed by bank debt.
- Interim fully franked ordinary dividend maintained at 1.5 cents per share.

Commenting on the result Chief Executive Officer Samantha Cheetham said: “*We are very pleased with the revenue growth momentum which continued over the half, achieving a record sales result of $50.5 million. We also improved margins assisted by product price rises implemented in the period, coupled with a slight softening in some c logistics costs, but not yet back to pre-COVID levels. Our focus continues to be making sure we meet customer demand. Whilst this has meant some additional costs and some inefficiencies in the short term, we remain confident that this deliberate strategic decision is supporting our top line growth and will deliver longer term benefits for our group.*

Thankfully, we are back to being able to educate and market our products around the world, seeing travel and essential trade shows back in the calendar. As a result, operating expenses have increased, reflecting normalised marketing and travel expenses, as well as inflationary pressures on other expenses.

We will be releasing new products and showcasing other new products to be released in the next fiscal year at the International Dental Show held in Germany in March 2023. The dental industry is almost back to normal operating conditions in most regions.”.

Key product category sales

Category	Growth in local currency %	Growth in AUD %	Total AUD sales %
Aesthetics	8.4	12.4	47.4
Whitening	(1.9)	-	28.9
Equipment	(8.6)	(3.0)	6.3
Amalgam	17.8	22.5	17.4

In local currencies, Aesthetics sales continued to show strong growth of 8.4% on pcp, increasing across all business units. The decline in Whitening (1.9)%, and Equipment (8.6)% were predominately driven by the European market, in particular France where Inflation is beginning to affect expenditure patterns, resulting in softening demand for these product categories (Whitening and Equipment). This was not the case with Aesthetics and Amalgam, evidenced by overall European business unit sales up 11.9% on pcp.

Although there is very little sales focus on Amalgam, the category increased by 17.8% in local currencies on pcp, and now represents 17.5% ($8.7 million) of total sales. This result was driven by the withdrawal of two major competitors last year from the Amalgam market.

Sales by business unit

Business unit	Growth in local currency %	Growth in AUD %	Total AUD sales %
Australia (incl direct exports)	(0.6)	5.3	36.5
North America	4.4	13.7	23.1
Europe	11.9	6.8	31.9
Brazil	10.5	22.9	8.5
Total	**5.4**	**9.0**	**100.0%**

The business unit performance reflects a return to normal operating conditions.

European sales were up 11.9% in local currencies, driven by strong demand in the UK market where conditions have now normalised.

Australian sales, which include Australian domestic and direct export markets, were down slightly, (0.6)% on pcp, with Australian direct exports decreasing by (2.4)%. This was partly offset by domestic sales which were up 4.1% on pcp as the Australian dental industry returned to pre-COVID normal operating conditions.

Brazilian sales increased by 10.5% on pcp in local currencies reflecting and overall market growth.

North American sales increased by 4.4% on pcp reflecting the slower uptake of Aesthetics compared to other markets. North America is still a strong Amalgam market and Amalgam sales in this market grew by 13.1% on pcp and represents 31.0% of North American sales.

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Sales by region

Region	HY 2023 (AUD)	HY 2022 (AUD)	% Change
APAC	$9.2m	$7.9m	17.1
Middle East / Africa	$5.6m	$6.0m	(5.3)
South America	$6.2m	$5.6m	9.8
North America	$11.7m	$10.3m	13.7
Europe	$17.8m	$16.5m	7.1

The strong growth across most regions was underpinned by the normalising of operating conditions. The Middle East/Africa region was down (5.3)% on pcp, reflecting the inconsistent ordering pattern of some countries in this region.

Gross profit margins

Product margins in Australian dollars increased by 7.3% to 56.2%, driven by slightly improved logistics costs and price increases. SDI exports to over 100 countries and the margins enjoyed in these regions are not uniform which impacts the overall outcome. Additionally, the strong sales growth in the lower margin Amalgam product impacted overall gross margins.

Operating expenses

Total operating expenses in Australian dollars increased by 22.8% on pcp. After adjusting for currency movements operating expenses increased by 20.7% compared to pcp.

Expense Category	% Increase Local Currencies	
Employee related	11.6	Increased superannuation & payroll tax rates, employee pay rate pressure
Travel	89.4	Global travel back to pre-pandemic levels
Promotional / marketing	27.3	New products releases, exhibition costs back to pre-pandemic levels.
Utilities	18.3	Increase electricity cost
Information Technology (IT)	19.7	Increase expenditure on cyber security & other IT projects

Most notable increase in operating expenses is travel, up 89.4% on pcp, and marketing expenses, up 27.3% on pcp. These increases relate to operating conditions returning to normal and the recommencement of important education and marketing activities such as trade shows. Inflation is having an impact across several operating expenses, including utilities and wage pressures.

Balance sheet

The Company has invested an additional $0.5 million in inventories, $1.0 million in plant and equipment, $1.5 million in product development expenditure, financed partly by cash and debt. The inventory increase reflects the strategic decision to meet customer demand, as well as a deliberate build-up of newly released products. The Company has also invested $24.8 million in land and buildings financed by bank borrowings, which will be reduced by $5.8 million pending the sale of existing properties. The Company has unused bank facilities of $6.6 million and $6.0 million cash in bank.

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Strategy and outlook

The Company remains focused on its strategic priorities:

- Aesthetics and Whitening products continue to be the focus for new product development. The Company's Aesthetic product 'Stela', designed as an Amalgam replacement product and general posterior restorative, and will compete in the wider Aesthetic categories due to its natural tooth colour and strength. It is on schedule to be released in several markets at the International Dental Show ('IDS') held in Cologne, Germany in March 2023 along with another Aesthetic product 'Riva Cem Auto Mix'.

- Achieving manufacturing and logistic efficiencies. The Company has reviewed its footprint, has purchased a six-acre property for $19.0 million (including stamp duty) and is expecting to relocate its warehousing in July 2023. This will release much needed space for manufacturing and the opportunity to refurbish its current production site to improve processes and manufacturing efficiencies;

- Investment in production automation and processes to achieve operating efficiencies and manage new and existing future product growth. The Company has recently purchased a high-speed production machine which will increase its syringe output on four products, moving from one to approximately eight syringes per minute. Other machines are on order for delivery over the next 12 months;

- On-going investment in research and development to release one to two products per year; and

- Investing in sales and marketing to further increase the Company's market share in its core product categories.

Dividends

Showing the Board's confidence in the future of the business, the Directors have declared an interim fully franked ordinary dividend of 1.50 cents per share, compared to 1.50 cents 1H FY22.

The Board has decided that the Company's Dividend Reinvestment Plan ('DRP') will not be offered to Shareholders for these dividend payments.

This announcement has been authorised by the Board of Directors of SDI Limited.

Please contact Adrian Mulcahy if you have any queries.

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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 Australia, USA, Germany, and Brazil.