SDI Limited

ABN 27 008 075 581

Appendix 4E Preliminary Final Report - 30 June 2015

Contents

SDI Limited - Full Year Results, 30 June 2015

HIGHLIGHTS

- **Sales revenue up 5.1% to $68.7m**
- **Profit before tax up 16.5% to $8.7m**
- **EBITDA up 15.2%**
- **100% increase in dividend payments**
- **Borrowings down by $1.5 m**
- **Cash up by 1.0m**
- **Glass Ionomer sales increased by 35%**
- **SDI's new Composite and Glass Ionomer products continues to show positive market acceptance with good evaluations from Key Opinion Leaders**

Profit before tax increased by 16.5% to $8.7m compared to $7.5m for the same period last year. Profit after tax decreased by $0.3m compared to the previous year of $6.5m. Tax expense increased from 13.4% to 28.7% of pre-tax profit due to an overstatement of estimated R & D concessional deductions relating to the prior year. This had no effect on tax payable in both the current and prior year. The Company expects that the normalised tax rate should be approximately 22% of pre-tax profit.

Earnings before interest, tax, depreciation and amortisation (EBITDA) increased by 15.2% to $12.3m, compared to $10.7m for the corresponding period last year.

Earnings per share for the 12 months ending 30 June 2015 decreased by 0.22 cents to 5.22 cents compared to 5.44 cents for the same period last year.

Sales reported in Australian Dollars for the 12 months ending 30 June increased by 5.1% to $68.7m compared to $65.3m for the corresponding period last year. SDI exports approximately 90% of its products and when adjusted for currency movements, sales increased by 1.8%.

National Australian Sales increased by 12.9%. This market is high quality and sophisticated with dentists showing a willingness to embrace innovation and technology. Sales of Glass Ionomer, Whitening and Composite products have increased with Amalgam products showing little to no growth.

In Australian Dollars, Australian direct exports from Australia showed a 3.4% growth however when adjusted for currency movements it declined by 5.9%. These export markets include Latin America, Africa, Asia and the Middle East. A wide discrepancy exists between the socio-economic groupings in a vast range of countries. In these markets there is a growing demand for quality dental care and products compared to lower quality locally manufactured products. Amalgam products represent a large proportion of sales in these markets. However, there is a growing trend showing a move to Composite and Glass Ionomer products. The decrease in sales was primarily the result of the reduction from Government tenders offered in the Middle Eastern and Latin American markets together with the loss of the Venezuelan market due to the country's political and economic situation.

North American sales in local currency increased 2.1%. USA and Canada are highly advanced and well developed markets. They continue to show demand for new and innovative products. This large market consists of a high dentate population which demands advanced dental care. The market is becoming more price-competitive with the growth of dental group practices and corporates. With the continuing training and restructuring of the Company's sales force, SDI is becoming more competitive in this market.

Sales in Europe increased by 1.7% in local currency. This market consists of many different geographic dynamics. Sales were materially affected by the poor result of the Company's UK market. This was primarily the result of large corporate customer mergers which in turn resulted in their stock requirements reducing. SDI expects that sales will increase in this market once these customers get back to normalised ordering patterns. The recent restructure of the European operations is expected to show positive results in the next 12 months. The Company is continuing to place greater emphasis on the expanding dental care program of the Eastern European market.

Brazilian sales increased by 10.9% in local currency. This is a low socio-economic market with a large dental population .The market consists of low priced local manufacturers and high barriers to entry for importers. The majority of this year's growth was driven by the increase in sales of Composite and Glass Ionomer products. GMP approval to manufacture and pack goods in Brazil is now finalised and the Company has today received official approval from the Brazilian Government authority (ANVISA). The devaluation of the Brazilian Real (BRL) has continued to have adverse effects on SDI's subsidiary. Now that the packing licence has been granted, SDI is confident it can counteract this to some extent with lower labour cost and savings on freight and duty. Brazil is a difficult country to operate in but it is vital for SDI's growth strategy for selling into other South American markets.

SDI's global manufacturing is centralised at its Bayswater facility in Victoria. The Company's products are highly technical and sophisticated which involve complex manufacturing processes. The facility is vertically integrated and consists of chemical and material manufacturing, injection moulding, filling and packing departments as well as inwards goods and despatch warehouses. The ongoing challenge for SDI is to fully automate the manufacturing processes. There is sufficient manufacturing space available to increase sales to approximately $120m per annum. However, to achieve this there needs to be additional investment in machinery to continue to automate processes and facilitate machinery for new products.

Group operating expenses in Australian Dollars increased by 1.8% compared to the previous year. Approximately 58% 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 0.9%.

SDI employs chemists who have specific expertise in various product groups. The R & D facility is equipped with state of the art equipment which assists the team to develop future new high technology products as well as continue to improve the existing product range. Currently, the R & D team is actively working on projects to further develop superior Glass Ionomer and Composite restoratives, improving the adhesive cement range and tooth whitening systems. Projects typically take around one to three years to commercialise and involve stability, efficacy and extensive clinical testing. All products are classified as Class 2 devices and are subject to strict medical device control by the TGA, FDA, and CE etc. SDI has an in house regulatory affairs department which is responsible for ensuring that worldwide registrations are approved. Regulatory approvals can take, in some countries, up to 2 years to achieve.

SDI is globally well known for its high quality Amalgam products. The Company's strategy of moving away from being an Amalgam branded company is starting to take traction in the market place. R & D in the past 15 years have been fully focused on non-Amalgam products. The Company is starting to become less reliant on these products with the majority of the increase in sales coming from Glass Ionomer, Composite and Whitening products.

The Company's total cash holdings for the 12 months increased by $1.0m after decreasing debt by $1.5m and increasing inventories by $2.2m. The increase in inventories was predominately due to the bulk purchase of materials from overseas suppliers which have long lead times. Expenditure on plant & equipment was $2.8m and intangibles were $1.8m which includes expenditure on R&D, patents and trademarks. The Company has completed the refurbishment of its composite manufacturing facility at a cost of $0.5m. This manufacturing facility is now world class and will cater for new composite products and will increase productivity of its existing composite products. The long overdue upgrading of SDI's North American and European sales and distribution centres to bring them up to medical device and competitor standard was also completed at a cost of $0.4m. SDI will continue to invest approximately $2.0m in the plant and equipment to continue the automation of its production facility and to cater for additional machinery required for new products.

The Board of Directors has declared a final fully franked dividend of 1.0 cent per share which will be paid on 25th September 2015. Total dividends for the 2015 financial year have increased by 0.7 cents to 1.4 cents doubling the 0.7 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.

1. Company details

Name of entity:	SDI Limited
ABN:	27 008 075 581
Reporting period:	For the year ended 30 June 2015
Previous period:	For the year ended 30 June 2014

2. Results for announcement to the market

				$'000
Revenues from ordinary activities	up	5.1%	to	68,655
Profit from ordinary activities after tax attributable to the owners of SDI Limited	down	4.1%	to	6,200
Profit for the year attributable to the owners of SDI Limited	down	4.1%	to	6,200

Dividends

	Amount per security Cents	Franked amount per security Cents
Final dividend declared for the year ended 30 June 2015 on to be paid on 25 September 2015	1.0	1.0
Interim dividend for the year ended 30 June 2015 paid on 16 April 2015	0.4	0.4

Comments
The profit for the consolidated entity after providing for income tax amounted to $6,200,000 (30 June 2014: $6,467,000).

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	31.18	26.73

4. Dividends

Current period

	Amount per security Cents	Franked amount per security Cents
Final dividend declared for the year ended 30 June 2015 on to be paid on 25 September 2015	1.0	1.0
Interim dividend for the year ended 30 June 2015 paid on 16 April 2015	0.4	0.4

Previous period

	Amount per security Cents	Franked amount per security Cents
Final dividend for the year ended 30 June 2014 paid on 26 September 2014	0.5	0.5
Interim dividend for the year ended 30 June 2014 paid on 2 May 2014	0.2	0.2

5. Audit qualification or review

The audit of the preliminary financial report is currently being conducted and the auditor's report will be issued upon approval of the financial statements by the directors.

6. Attachments

The Appendix 4E Preliminary Final Report of SDI Limited for the year ended 30 June 2015 is attached.

7. Signed

Date: 27 August 2015

Signed

Jeffery James Cheetham
Executive Chairman and Managing Director
Melbourne

SDI Limited
Statement of profit or loss and other comprehensive income
For the year ended 30 June 2015

	Note	Consolidated 2015 $'000	2014 $'000
Revenue			
Sales revenue		68,655	65,330
Cost of goods sold		(29,182)	(27,052)
Gross profit		39,473	38,278
Other income	2	226	114
Expenses			
Selling and administration expenses		(29,000)	(28,545)
Research and development costs		(550)	(415)
Other expenses		(1,027)	(1,464)
Finance costs		(422)	(499)
Profit before income tax expense		8,700	7,469
Income tax expense		(2,500)	(1,002)
Profit after income tax expense for the year attributable to the owners of SDI Limited		6,200	6,467
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Net change in the fair value of cash flow hedges taken to equity, net of tax		1	497
Exchange differences arising on translation of foreign controlled entities		885	(39)
Other comprehensive income for the year, net of tax		886	458
Total comprehensive income for the year attributable to the owners of SDI Limited		7,086	6,925
		Cents	**Cents**
Basic earnings per share	11	5.22	5.44
Diluted earnings per share	11	5.22	5.44

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

SDI Limited
Statement of financial position
As at 30 June 2015

	Note	Consolidated 2015 $'000	2014 $'000
Assets			
Current assets			
Cash and cash equivalents	3	5,037	3,994
Trade and other receivables		12,866	11,897
Inventories		16,568	14,369
Derivative financial instruments		54	51
Other current assets		1,872	2,196
Total current assets		36,397	32,507
Non-current assets			
Property, plant and equipment		18,555	17,867
Intangibles		21,030	20,303
Deferred tax asset		3,233	3,359
Other non-current assets		26	56
Total non-current assets		42,844	41,585
Total assets		79,241	74,092
Liabilities			
Current liabilities			
Trade and other payables	4	5,415	4,669
Borrowings	5	3,726	4,707
Provision for income tax		322	893
Other provisions		1,434	1,434
Total current liabilities		10,897	11,703
Non-current liabilities			
Borrowings	6	3,466	3,946
Deferred tax liability		4,893	4,582
Other provisions		1,894	1,786
Total non-current liabilities		10,253	10,314
Total liabilities		21,150	22,017
Net assets		58,091	52,075
Equity			
Issued capital		12,890	12,890
Reserves	7	1,170	284
Retained profits		44,031	38,901
Total equity		58,091	52,075

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

SDI Limited
Statement of changes in equity
For the year ended 30 June 2015

Consolidated	Issued capital $'000	Reserves $'000	Retained profits $'000	Total equity $'000
Balance at 1 July 2013	12,890	(174)	33,266	45,982
Profit after income tax expense for the year	-	-	6,467	6,467
Other comprehensive income for the year, net of tax	-	458	-	458
Total comprehensive income for the year	-	458	6,467	6,925
Transactions with owners in their capacity as owners:				
Dividends paid (note 8)	-	-	(832)	(832)
Balance at 30 June 2014	12,890	284	38,901	52,075

Consolidated	Issued capital $'000	Reserves $'000	Retained profits $'000	Total equity $'000
Balance at 1 July 2014	12,890	284	38,901	52,075
Profit after income tax expense for the year	-	-	6,200	6,200
Other comprehensive income for the year, net of tax	-	886	-	886
Total comprehensive income for the year	-	886	6,200	7,086
Transactions with owners in their capacity as owners:				
Dividends paid (note 8)	-	-	(1,070)	(1,070)
Balance at 30 June 2015	12,890	1,170	44,031	58,091

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

SDI Limited
Statement of cash flows
For the year ended 30 June 2015

	Note	Consolidated 2015 $'000	Consolidated 2014 $'000
Cash flows from operating activities			
Receipts from customers		67,686	64,284
Payments to suppliers and employees		(57,526)	(54,453)
		10,160	9,831
Interest received		-	11
Other revenue		161	92
Interest and other finance costs paid		(422)	(499)
Income taxes paid		(2,634)	(1,793)
Net cash from operating activities	10	7,265	7,642
Cash flows from investing activities			
Payments for property, plant and equipment		(2,889)	(3,138)
Payments for intangibles		(1,808)	(1,926)
Proceeds from disposal of property, plant and equipment		121	22
Net cash used in investing activities		(4,576)	(5,042)
Cash flows from financing activities			
Proceeds from borrowings		6,132	8,328
Dividends paid	8	(1,070)	(832)
Repayment of borrowings		(7,593)	(9,738)
Net cash used in financing activities		(2,531)	(2,242)
Net increase in cash and cash equivalents		158	358
Cash and cash equivalents at the beginning of the financial year		3,994	3,675
Effects of exchange rate changes on cash and cash equivalents		885	(39)
Cash and cash equivalents at the end of the financial year	3	5,037	3,994

The above 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.

Based on 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 operating segments. These are primarily identified on the basis of subsidiary companies in different markets.

Reportable segments
The consolidated entity's reportable segments under AASB 8 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 the segment, inter-segment eliminations / other as the results were judged immaterial for separate inclusion in the segment report.

Intersegment transactions
The segment revenues, expenses and result 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 - 2015	SDI Australia $'000	SDI Europe $'000	SDI USA $'000	SDI Brazil $'000	Inter-segment eliminations/ unallocated $'000	Total $'000
Revenue						
Sales to external customers	23,760	19,175	19,689	5,900	131	68,655
Intersegment sales	23,500	10,519	-	-	(34,019)	-
Total sales revenue	47,260	29,694	19,689	5,900	(33,888)	68,655
Total revenue	47,260	29,694	19,689	5,900	(33,888)	68,655
Segment profit before tax	7,788	2,099	1,195	(270)	(2,112)	8,700
Profit before income tax expense						8,700
Income tax expense						(2,500)
Profit after income tax expense						6,200
Assets						
Segment assets	70,503	7,924	8,878	5,494	(14,260)	78,539
Unallocated assets:						
Deferred tax asset						702
Total assets						79,241
Liabilities						
Segment liabilities	18,754	4,331	994	4,866	(7,795)	21,150
Total liabilities						21,150

Note 1. Operating segments (continued)

Consolidated - 2014	SDI Australia $'000	SDI Europe $'000	SDI USA $'000	SDI Brazil $'000	Inter-segment eliminations/ unallocated $'000	Total $'000
Revenue						
Sales to external customers	22,418	19,510	17,643	5,650	109	65,330
Intersegment sales	21,336	10,939	-	-	(32,275)	-
Total sales revenue	43,754	30,449	17,643	5,650	(32,166)	65,330
Total revenue	43,754	30,449	17,643	5,650	(32,166)	65,330
Segment profit before tax	7,093	1,809	907	(824)	(1,017)	7,968
Finance costs						(499)
Profit before income tax expense						7,469
Income tax expense						(1,002)
Profit after income tax expense						6,467
Assets						
Segment assets	66,581	7,618	6,185	6,350	(13,310)	73,424
Unallocated assets:						
Deferred tax asset						668
Total assets						74,092
Liabilities						
Segment liabilities	19,831	3,535	358	5,325	(7,032)	22,017
Total liabilities						22,017

Note 2. Other income

	Consolidated 2015 $'000	Consolidated 2014 $'000
Net foreign exchange gain	115	-
Net gain on disposal of property, plant and equipment	65	-
Interest revenue	10	11
Other income	36	103
Other income	226	114

Note 3. Current assets - cash and cash equivalents

	Consolidated 2015 $'000	Consolidated 2014 $'000
Cash at bank and on hand	5,037	3,994

Note 4. Current liabilities - trade and other payables

	Consolidated 2015 $'000	Consolidated 2014 $'000
Trade payables	3,600	1,881
Other payables and accrued expenses	1,815	2,788
	5,415	4,669

Note 5. Current liabilities - borrowings

	Consolidated 2015 $'000	Consolidated 2014 $'000
Bank loans	3,177	4,157
Hire purchase liability	549	550
	3,726	4,707

Note 6. Non-current liabilities - borrowings

	Consolidated 2015 $'000	Consolidated 2014 $'000
Bank loans	3,000	3,000
Hire purchase liabilities	466	946
	3,466	3,946

Total secured liabilities
The total secured liabilities (current and non-current) are as follows:

	Consolidated 2015 $'000	Consolidated 2014 $'000
Bank loans	6,177	7,157
Hire purchase liabilities	1,015	1,496
	7,192	8,653

Note 7. Equity - reserves

	Consolidated 2015 $'000	Consolidated 2014 $'000
Revaluation surplus reserve	272	272
Foreign currency reserve	498	(387)
Capital profits reserve	363	363
Hedging reserve - cash flow hedges	37	36
	1,170	284

Note 7. 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 2013	272	(348)	363	(461)	(174)
Foreign currency translation	-	(39)	-	-	(39)
Hedging reserve - cash flow hedges	-	-	-	710	710
Deferred tax	-	-	-	(213)	(213)
Balance at 30 June 2014	272	(387)	363	36	284
Foreign currency translation	-	885	-	-	885
Hedging reserve - cash flow hedges	-	-	-	1	1
Balance at 30 June 2015	272	498	363	37	1,170

Note 8. Equity - dividends

Dividends paid during the financial year were as follows:

	Consolidated 2015 $'000	Consolidated 2014 $'000
Final dividend for the year ended 30 June 2014 of 0.5 cents (2013: 0.5 cents) per ordinary share	594	595
Interim dividend for the year ended 30 June 2015 of 0.4 cents (2014: 0.2 cents) per ordinary share	476	237
	1,070	832

The Board of Directors has declared a final fully franked dividend of 1.0 cents per share which will be paid on 25 September 2015. Total dividends for the 2015 financial have increased by 0.7 cents to 1.4 cents compared to 0.7 cents for the previous year. The Directors have decided that the Company’s dividend Reinvestment Plan ('DRP') will not be offered to Shareholders for this dividend payment.

Note 9. Contingent liabilities

The consolidated entity had no contingent liabilities as at 30 June 2015 and 30 June 2014.

Note 10. Reconciliation of profit after income tax to net cash from operating activities

	Consolidated 2015 $'000	Consolidated 2014 $'000
Profit after income tax expense for the year	6,200	6,467
Adjustments for:		
Depreciation and amortisation	3,226	2,747
Net loss/(gain) on disposal of non-current assets	(65)	19
Change in operating assets and liabilities:		
Increase in trade and other receivables	(969)	(1,035)
Decrease/(increase) in inventories	(2,199)	866
Decrease/(increase) in deferred tax assets	126	(480)
Increase in derivative assets	(2)	-
Decrease/(increase) in prepayments	354	(847)
Increase/(decrease) in trade and other payables	746	(81)
Decrease in provision for income tax	(571)	(91)
Increase/(decrease) in deferred tax liabilities	311	(220)
Increase in employee benefits	158	-
Increase/(decrease) in other provisions	(50)	297
Net cash from operating activities	7,265	7,642

Note 11. Earnings per share

	Consolidated 2015 $'000	Consolidated 2014 $'000
Profit after income tax attributable to the owners of SDI Limited	6,200	6,467
	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	5.22	5.44
Diluted earnings per share	5.22	5.44