



5 Brunsdon St
Bayswater VIC 3153

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Lodgement of Market Briefing**

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Market Briefing

SDI Limited MD on FY16 results and outlook

Interview with Samantha Cheetham (Managing Director & CEO)

In this Market Briefing interview, SDI's Managing Director & CEO, Samantha Cheetham, discusses the company's full year results and its outlook, including:

- Growing revenues over 12 months ended 30 June 2016 [FY16]
- Group focus under new leadership
- Product and brand relaunch
- Competitive environment dynamics
- Outlook and key priorities for FY17

Market Briefing

FY2016 saw SDI Limited's earnings rebound strongly from FY15, rising 22 per cent. What were the key drivers of this result?

Samantha Cheetham

The improvement in the European and Brazilian operations, along with the weakening Australian dollar, were key drivers over the year. At the product level, we enjoyed strong sales growth in our Pola whitening, Riva glass ionomer and our composite range. On market share we have a strong share in whitening products in most countries. We are number one in Australia, number two in Europe and number four in the USA through the dentists for the markets they operate in. In addition, our Riva glass ionomers are gaining recognition from key opinion leaders leading to market share gains.

Market Briefing

FY2017 sees a change in management with a new CEO. Can you talk about the focus for the Group and any new key strategic priorities?

Samantha Cheetham

We are completely focused on getting our sales targets in all regions and getting back on track in the USA. Our R+D teams have a strong product pipeline to be launched over the next 18 months and our focus is on the work involved in meeting these timelines. We have begun the repositioning SDI to the dental community as an innovative, technology driven Australian manufacturer, moving away from the old-fashioned amalgam image we have in some markets.

Market Briefing

The company has operations in Australia, the US, Brazil and Europe. Can you talk about the differences or similarities in these markets in terms of your key products and customers?

Samantha Cheetham

The Australian, USA and European dental markets are all very developed. The quality of dentistry provided to patients is very high and distribution is advanced. The general dentists are doing advanced aesthetic dental work and there is a high demand for innovation. Eastern European markets are similarly looking for high quality work as their economies strengthen.

In these markets, the distribution systems are well developed with several large national distributors controlling much of the purchasing. In the USA, large special market customers are becoming prominent demanding lower prices for large order commitments. There are also Special markets, which are large group practices, corporates and public institutions. These Special market customers are growing all regions globally.

In Brazil, and other lower socio-economic regions, demand for quality and innovation is increasing with more and more people able to afford dental care. Aesthetic materials such as tooth whitening, composites and glass ionomers are very important in countries where image is central to everyday life. In this market the local manufacturers compete at very low prices with Government tenders in amalgam still strong. Distribution is fragmented with small local distributors in each city. However, this is starting to change with one key US distributor recently entering the market.

Market Briefing

Can you talk about the competitive dynamics in each market you operate in and describe how the markets are structured from the manufacturer to the end-user of the product?

Samantha Cheetham

In Australia, Brazil, North America and Europe, manufacturers predominantly sell via dental dealers who have sales representatives, who then sell to dentists with some manufacturers selling direct to dentists. SDI ships product from Australia to the USA and Germany and then to the dental dealers.

For the rest of South America, Asia and the Middle East, we ship to our exclusive distributors who typically sell to smaller distributors and then finally onto dentists.

Market Briefing

Can you explain the background to the planned consolidation of the Irish and German office into one European headquarters in Cologne, Germany and what you see as the benefits for the Group?

Samantha Cheetham

Germany is the largest dental market in Europe and we have had our headquarters in Cologne since 1987. Originally, we opened our Irish office to act as a call centre for sales into all European countries when we could not source multi-lingual staff. Now Cologne has many skilled multi-lingual sales people who are able to communicate with our customers across Europe. Having our entire European sales support and warehousing in one central location is already proving to be beneficial.

Market Briefing

Can you explain the strategy of focusing your efforts on the non-amalgam products?

Samantha Cheetham

Consumers want whiter, brighter teeth. They also want restoratives (“fillings”) that do not stand out. They must look natural and unfortunately, amalgam is not natural looking.

Our team is very confident of promoting our successful Pola tooth whitening range of products, a well-known product amongst distributors and dentists. This becomes a door opener for other aesthetic products such as Riva glass ionomers and Aura composites. We are promoting the non-amalgam products with media advertising targeting important key opinion leaders who in turn promote our products to their colleagues. In addition, we collaborate with universities and ensure our distributors have the right marketing and selling tools to gain market share.

Market Briefing

SDI Limited has invested an enormous amount in Research and Development and it appears this has given you a significant advantage over your peers. Can you describe the importance of R&D for future growth prospects for the Group?

Samantha Cheetham

As a technology company, Research and Development has always been at the core of our business and one of our competitive advantages. If we didn't make this investment, we would simply be selling generic products.

We have two R+D teams, one focused on advanced chemistry and the other focused on delivery systems to ensure products are easy to use. Dentists are always looking for the ultimate restorative that is stronger, more natural, and longer lasting and importantly are looking for easy to use products. As part of our overall research and development we are now beginning to work with external groups to further enhance our innovation process.

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In closing what is the outlook for the FY2017?

Samantha Cheetham

We expect our mix of sales to continue to shift in favour of non-amalgam products with these sales expected grow by 10 per cent this year Our amalgam sales are expected to be flat. Finally, the dividend payout ratio is expected to be at a minimum of 30 per cent of after tax profits.

Market Briefing

Thank you, Sam

For further information, please contact +61-3 9591 8902, or visit www.sdi.com.au

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