

SDI Limited

ABN 27 008 075 581

Interim Report - 31 December 2021

MELBOURNE, Australia – SDI Limited (ASX: SDI). Net profit after tax of \$2.7 million for the six months ending 31 December 2021, compared with \$4.6 million for the same period last year.

| Summary financials (AUD) | 1H 2022 | 1H 2021 | % Change |
|--|---------|---------|-----------|
| Sales (\$m) | 46.3 | 36.8 | 26.0 |
| Earnings Before Interest, Taxation, Depreciation and Amortisation ('EBITDA') (\$m) | 6.0 | 8.7 | (30.3) |
| Net Profit After Tax ('NPAT') (\$m) | 2.7 | 4.6 | (41.2) |
| Net Cash | 6.5 | 11.1 | (41.0) |
| Earnings Per Share ('EPS') (cents) | 2.26 | 3.85 | (41.3) |
| Interim ordinary dividend (cents) | 1.50 | 1.50 | unchanged |

1H 2022 Highlights

- Record total sales of \$46.3 million up 26.0% compared to the corresponding period last year, with strong growth in all product categories and in most regions.
- Freight costs were up \$2.7 million impacting product margins by 5.8% and Operating expenses up 12.6% compared to the corresponding period last year, or up 2.5% compared to the 1H 2020 half year.
- EBITDA was down 30.3% to \$6.0 million, compared to \$8.7 million for the corresponding period last year, reflecting the elevated freight costs incurred in the period.
- EPS was down 1.59 cents to 2.26 cents compared to 3.85 cents for the same period last year.
- Strong cash and no debt with Investment on research and development continuing.
- The strategic restructure of the Brazilian operations that were fully operational in January 2022.
- Interim fully franked ordinary dividend maintained at 1.50 cents per share.

Commenting on the result Chief Executive Officer Samantha Cheetham said: "We have achieved record first half sales with all product categories growing strongly in most regional markets. Drivers included the momentum from new product releases, clear increases in market share in our core categories, and underpinned by many markets returning to normal operations. While operating conditions have normalised, the cost of freight was a significant factor, with delays and cost inflation continuing to be a challenge for us and many other companies. Our focus in this period was on ensuring we met customer demands and, while confident the benefits will deliver enduring value for our relationships with these customers, the cost in the short term from these elevated freight costs was material. However, with such a strong start to the year and genuine momentum in the business, I feel increasingly confident on the outlook".

Key product category sales

| Category | Growth in local currency % | Growth in AUD % | Total AUD sales % |
|------------|----------------------------|-----------------|-------------------|
| Aesthetics | 30.5 | 28.7 | 45.9 |
| Whitening | 20.6 | 18.7 | 31.5 |
| Equipment | 16.5 | 15.6 | 7.1 |
| Amalgam | 41.0 | 40.3 | 15.5 |

Sales growth in the core categories of Aesthetics and Whitening grew strongly, up 30.5% and 20.6% respectively in local currencies. This performance reflects market share gains and the continuing momentum from new product releases in previous financial years. Equipment was also strong, growing 16.5% for the half-year, a return to normal operating conditions.

Amalgam, which is now 15.5% of total sales rebounded strongly, growing 41.0% in local currencies. This result was driven in part by the withdrawal of two major competitors from the amalgam market but also further evidence of certain regions returning to normal operating conditions with new government tenders a feature.

Sales by business unit

| Business unit | Growth in local currency % | Growth in AUD % | Total AUD sales % |
|--------------------------------------|----------------------------------|--------------------|-------------------------|
| Australia (including direct exports) | 31.0 | 29.9 | 37.7 |
| North America | 13.0 | 11.7 | 22.1 |
| Europe | 28.7 | 25.5 | 32.6 |
| Brazil | 66.9 | 67.2 | 7.6 |
| Total | 27.8 | 26.0 | 100.0 |

The business unit performance reflects a return to normal operating conditions referred to above. The European business unit sales, up 28.7% in local currencies, was driven by strong demand in its key markets and assisted by the UK, where conditions continued to improve in the half-year. The Australian business unit sales, which includes Australian domestic and direct export markets, was up 31.0% with Australian direct exports increasing by 67.0%. This was partly offset by domestic sales which were down 16.8% in the half-year, due mainly to Government lock downs and their impact on Dentists in Victoria and New South Wales during the period.

Brazilian sales increased by 66.9% in local currencies, reflecting further market share gains and overall market growth. The restructure of the Brazilian operations has now been implemented and fully operational from January 2022.

Sales by region

| Region | 1H 2022 (AUD) | 1H 2021 (AUD) | % Change |
|-----------------------|---------------|---------------|----------|
| Asia-Pacific ('APAC') | 7.9m | 8.7m | (9.2) |
| Middle East / Africa | 5.6m | 2.0m | 180.0 |
| South America | 6.0m | 3.3m | 81.1 |
| North America | 10.3m | 9.2m | 11.7 |
| Europe | 16.5m | 13.6m | 21.3 |

The regional performances reflect the normal operating conditions referred to above with strong growth in most regions. The APAC regions, as mentioned above, was impacted by Government lock downs in Victoria and New South Wales. Finally, the strong performance in the Middle East/Africa region, up 180%, benefited from the delivery of some large tenders during the half, in part reflecting the return of these markets to normal operation conditions.

Gross profit margins

Product margins in Australian dollars decreased by 12.5% to 52.4%, with added freight costs and adjusting for currency movements accounted for 6.4% of this decline. A further 6.1% decrease in the margin was due to regional and product sales mix. SDI exports to over 100 countries and the margins enjoyed in these regions is not uniform, with product margins also impacting the outcome. Growth in Australian direct exports and Brazilian sales, which may also be impacted at times by the product mix and generally attracting a lower margin, contributed to the overall margin mix. Finally, with the Amalgam market changes described above, the strong sales growth of this lower margin product impacted overall gross margins.

Operating expenses

Total operating expenses in Australian dollars increased by 23.1% when compared to the previous corresponding period. After adjusting for currency movements and government assistance programs, underlying operating expenses increased by 12.6% compared to the corresponding period last year. However, encouragingly when compared to the pre-pandemic levels in the half year 2020, operating expenses increased by 2.5% after adjusting for currency movements.

Balance sheet

SDI's net cash position decreased by \$4.0 million to \$6.5 million for the six months after increasing inventories by \$1.4 million, planned investment in plant and equipment of \$0.6 million, product development expenditure of \$1.2 million, and increase in freight costs of \$2.7 million. SDI has actively increased its inventory in this period to ensure customer needs were met and in part to mitigate the continued global freighting delays. SDI has unused bank facilities of \$10 million.

SDI did not receive Government assistance payments in the six months ending 31 December 2021, compared to receiving \$3.4 million for the corresponding period last year. Of the \$3.4 million received in the previous corresponding period, \$1.7 million was allocated to operating expenses and \$1.7 million to the manufacturing departments to support SDI's commitment to keep its global employees employed during that period.

Strategy and outlook

SDI remains focused on its strategic priorities. Firstly, Aesthetics and Whitening products continue to be the focus for new product development - achieving manufacturing efficiencies and driving sales and marketing teams; secondly, on-going investment in research and development to release one to two products per year is on target; and finally, SDI's Amalgam replacement product is on schedule to be released in 2023.

SDI has continued the comprehensive review of its manufacturing footprint, including relocation, further investment in automation, and on its manufacturing processes to ensure it continues to operate efficiently and manage future growth.

Commenting on the outlook, Samantha Cheetham said: "I am encouraged by the strong sales growth in our markets and see genuine momentum in our business underpinned by new product releases and continued increases in market share. While the challenges of elevated costs and the uncertainty of further lockdowns is still a reality, in time these conditions will normalise, and we will see ongoing benefits from the strong base we have built in our markets.

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, maintaining last year's interim dividend of 1.5 cents per share. The interim ordinary dividends of 1.5 cents equates to a payout ratio of 66.3%.

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

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1. Company details

| | |
|-------------------|--|
| Name of entity: | SDI Limited |
| ABN: | 27 008 075 581 |
| Reporting period: | For the half-year ended 31 December 2021 |
| Previous period: | For the half-year ended 31 December 2020 |

2. Results for announcement to the market

| | | | \$'000 |
|---|------|----------|--------|
| Revenues from ordinary activities | up | 26.0% to | 46,329 |
| Profit from ordinary activities after tax attributable to the owners of SDI Limited | down | 41.2% to | 2,690 |
| Profit for the half-year attributable to the owners of SDI Limited | down | 41.2% to | 2,690 |

Dividends

| | Amount per security Cents | Franked amount per security Cents |
|--|---------------------------|-----------------------------------|
| Final dividend for the year ended 30 June 2021 paid on 20 September 2021 | 1.65 | 1.65 |

On 17 February 2022, the Directors declared an interim franked dividend of 1.50 cents per share to be paid on 22 April 2022. This equates to a total estimated distribution of \$1,783,000 based on the number of ordinary shares on issue as at 31 December 2020. The financial effect of dividends declared after the reporting date is not reflected in the 31 December 2021 financial statements and will be recognised in subsequent financial reports.

Comments

The profit for the consolidated entity after providing for income tax amounted to \$2,690,000 (31 December 2020: \$4,578,000).

Earnings before interest, tax, depreciation and amortisation ('EBITDA') decreased by 30.3% to \$6,042,000 (31 December 2020: \$8,674,000).

EBITDA is a financial measure which is not prescribed by Australian Accounting Standards ('AAS') and represents the profit under AAS adjusted for specific items. The directors consider EBITDA to represent the core earnings measure of the consolidated entity.

The following table summarises key reconciling items between statutory profit after tax and EBITDA:

| | Consolidated 31 Dec 2021 \$'000 | 31 Dec 2020 \$'000 |
|------------------------------------|---------------------------------------|-----------------------|
| Profit after tax | 2,690 | 4,578 |
| Add: taxation | 907 | 1,732 |
| Add: interest expense | 13 | 52 |
| Less: interest income | (1) | (2) |
| Add: depreciation and amortisation | 2,433 | 2,314 |
| EBITDA | 6,042 | 8,674 |

Further information on the results is detailed in the 'Commentary - Half-year results' immediately following this report.

3. Net tangible assets

| | Reporting period Cents | Previous period Cents |
|---|------------------------------|-----------------------------|
| Net tangible assets per ordinary security | 46.96 | 43.69 |

4. Control gained over entities

Not applicable.

5. Dividends

Current period

| | Amount per security Cents | Franked amount per security Cents |
|--|---------------------------------|--|
| Final dividend for the year ended 30 June 2021 paid on 20 September 2021 | 1.65 | 1.65 |

Previous period

| | Amount per security Cents | Franked amount per security Cents |
|--|---------------------------------|--|
| Final dividend for the year ended 30 June 2020 paid on 21 September 2020 | 0.50 | 0.50 |
| Interim dividend for the year ended 30 June 2020 paid on 23 April 2021 | 1.50 | 1.50 |

6. Dividend reinvestment plans

The following dividend or distribution plans are in operation:

The Company has a Dividend Reinvestment Plan ('DRP'). However, the Directors have decided that the DRP will not be offered to Shareholders for the dividend payments.

7. Audit qualification or review

The financial statements were subject to a review by the auditors and the review report is attached as part of the Interim Report.

8. Attachments

The Interim Report of SDI Limited for the half-year ended 31 December 2021 is attached.

9. Signed

Authorised by the Board of Directors.

Signed  _____

Date: 17 February 2022

Samantha Jane Cheetham
Managing Director
Melbourne

The Directors present their report, together with the financial statements, on the consolidated entity consisting of SDI Limited (referred to hereafter as the 'Company', 'SDI' or 'parent entity') and the entities it controlled at the end of, or during, the half-year ended 31 December 2021 (referred to hereafter as the 'consolidated entity').

Directors

The following persons were Directors of SDI Limited during the whole of the financial half-year and up to the date of this report, unless otherwise stated:

Jeffery James Cheetham OAM - Chairman
 Samantha Jane Cheetham
 John Joseph Slaviero
 Dr Geoffrey Macdonald Knight AM
 Gerald Allan Bullon
 Cameron Neil Allen
 Gerard Desmond Kennedy

Alternate Director

Pamela Joy Cheetham (alternate for Jeffery James Cheetham)

Principal activities

During the financial half-year, the principal activities of the consolidated entity consisted of the manufacture and distribution of dental restorative materials, whitening systems, other dental materials and product research and development.

Dividends

Dividends paid during the financial half-year were as follows:

| | Consolidated | |
|---|---------------------|--------------------|
| | 31 Dec 2021 | 31 Dec 2020 |
| | \$'000 | \$'000 |
| Final dividend for the year ended 30 June 2021 of 1.65 cents (2020: 0.5 cents) per ordinary share | 1,961 | 594 |

On 17 February 2022, the Directors declared an interim franked dividend of 1.50 cents per share to be paid on 22 April 2022. This equates to a total estimated distribution of \$1,783,000 based on the number of ordinary shares on issue as at 31 December 2021. The financial effect of dividends declared after the reporting date is not reflected in the 31 December 2021 financial statements and will be recognised in subsequent financial reports.

Review of operations

The profit for the consolidated entity after providing for income tax amounted to \$2,690,000 (31 December 2020: \$4,578,000).

Highlights of the results from operations for the financial half-year ended 31 December 2021 are provided below:

Net profit after tax decreased by 41.2% to \$2,690,000 compared to \$4,578,000 for the previous half-year. Profit before tax decreased by 43.0% to \$3,597,000 compared to \$6,310,000 for the previous half-year.

Earnings per share for the half-year ended 31 December 2021 decreased by 1.59 cents to 2.26 cents compared to 3.85 cents for the same period last half-year.

Earnings before interest, taxation, depreciation and amortisation ('EBITDA') is a financial measure which is not prescribed by Australian Accounting Standards ('AAS') and represents the profit under AAS adjusted for specific items. The directors consider EBITDA to represent the core earnings measure of the consolidated entity.

EBITDA decreased by 30.3% to \$6,042,000 (31 December 2020: \$8,674,000).

The following table summarises key reconciling items between statutory profit after tax and EBITDA:

| | Consolidated | |
|------------------------------------|---------------------|--------------------|
| | 31 Dec 2021 | 31 Dec 2020 |
| | \$'000 | \$'000 |
| Profit after tax | 2,690 | 4,578 |
| Add: taxation | 907 | 1,732 |
| Add: interest expense | 13 | 52 |
| Less: interest income | (1) | (2) |
| Add: depreciation and amortisation | 2,433 | 2,314 |
| EBITDA | <u>6,042</u> | <u>8,674</u> |

Significant changes in the state of affairs

There were no significant changes in the state of affairs of the consolidated entity during the financial half-year.

Rounding of amounts

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial / Directors' Reports) Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this Directors' report.

This report is made in accordance with a resolution of Directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

On behalf of the Directors



Samantha Jane Cheetham
Managing Director

17 February 2022
Melbourne

17 February 2022

The Board of Directors
SDI Limited
5-9 Brunsdon Street
BAYSWATER VIC 3153

Dear Board Members

SDI Limited

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of SDI Limited.

As lead audit partner for the review of the financial statements of SDI Limited for the half-year ended 31 December 2021, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- (ii) any applicable code of professional conduct in relation to the review.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU



Anneke du Toit
Partner
Chartered Accountants

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SDI Limited
Consolidated statement of profit or loss and other comprehensive income
For the half-year ended 31 December 2021



| | | Consolidated | |
|--|-------------|---------------------|--------------------|
| | Note | 31 Dec 2021 | 31 Dec 2020 |
| | | \$'000 | \$'000 |
| Revenue | | | |
| Sales revenue | 4 | 46,328 | 36,762 |
| Cost of goods sold | | (22,051) | (12,920) |
| Gross profit | | 24,277 | 23,842 |
| Other losses, net | 5 | (224) | (1,004) |
| Interest income | | 1 | 2 |
| Expenses | | | |
| Selling and administration expenses | | (18,899) | (14,692) |
| Research and development costs | | (566) | (807) |
| Impairment of receivables | | 5 | (23) |
| Other expenses | | (984) | (956) |
| Finance costs | 6 | (13) | (52) |
| Total expenses | | (20,457) | (16,530) |
| Profit before income tax expense | | 3,597 | 6,310 |
| Income tax expense | | (907) | (1,732) |
| Profit after income tax expense for the half-year attributable to the owners of SDI Limited | 10 | 2,690 | 4,578 |
| Other comprehensive income | | | |
| <i>Items that may be reclassified subsequently to profit or loss</i> | | | |
| Exchange differences arising on translation of foreign controlled entities | | 41 | (840) |
| Other comprehensive income for the half-year, net of tax | | 41 | (840) |
| Total comprehensive income for the half-year attributable to the owners of SDI Limited | | 2,731 | 3,738 |
| | | Cents | Cents |
| Basic earnings per share | 7 | 2.26 | 3.85 |
| Diluted earnings per share | 7 | 2.26 | 3.85 |

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

| | | Consolidated | |
|--------------------------------|-------------|---------------------|---------------------|
| | Note | 31 Dec 2021 | 30 June 2021 |
| | | \$'000 | \$'000 |
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | | 6,523 | 10,559 |
| Trade and other receivables | 8 | 17,047 | 18,486 |
| Inventories | | 22,907 | 21,509 |
| Current tax asset | | 318 | 172 |
| Prepayments | | 3,081 | 1,618 |
| Total current assets | | 49,876 | 52,344 |
| Non-current assets | | | |
| Trade and other receivables | 8 | 756 | 805 |
| Property, plant and equipment | | 18,636 | 19,288 |
| Right-of-use assets | | 1,414 | 1,571 |
| Intangibles | | 24,730 | 24,396 |
| Total non-current assets | | 45,536 | 46,060 |
| Total assets | | 95,412 | 98,404 |
| Liabilities | | | |
| Current liabilities | | | |
| Trade and other payables | | 7,486 | 9,286 |
| Lease liabilities | | 342 | 325 |
| Provision for income tax | | 138 | 2,162 |
| Employee benefits | | 3,264 | 3,173 |
| Total current liabilities | | 11,230 | 14,946 |
| Non-current liabilities | | | |
| Lease liabilities | | 1,067 | 1,248 |
| Deferred tax liability | | 2,361 | 2,186 |
| Employee benefits | | 204 | 244 |
| Total non-current liabilities | | 3,632 | 3,678 |
| Total liabilities | | 14,862 | 18,624 |
| Net assets | | 80,550 | 79,780 |
| Equity | | | |
| Issued capital | 9 | 12,890 | 12,890 |
| Reserves | | 970 | 929 |
| Retained profits | 10 | 66,690 | 65,961 |
| Total equity | | 80,550 | 79,780 |

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

| Consolidated | Issued capital \$'000 | Reserves \$'000 | Retained profits \$'000 | Total equity \$'000 |
|--|--------------------------------------|----------------------------|--|--------------------------------|
| Balance at 1 July 2020 | 12,890 | 1,503 | 59,397 | 73,790 |
| Profit after income tax expense for the half-year | - | - | 4,578 | 4,578 |
| Other comprehensive income for the half-year, net of tax | - | (840) | - | (840) |
| Total comprehensive income for the half-year | - | (840) | 4,578 | 3,738 |
| <i>Transactions with owners in their capacity as owners:</i> | | | | |
| Dividends paid (note 11) | - | - | (594) | (594) |
| Balance at 31 December 2020 | <u>12,890</u> | <u>663</u> | <u>63,381</u> | <u>76,934</u> |
| Consolidated | Issued capital \$'000 | Reserves \$'000 | Retained profits \$'000 | Total equity \$'000 |
| Balance at 1 July 2021 | 12,890 | 929 | 65,961 | 79,780 |
| Profit after income tax expense for the half-year | - | - | 2,690 | 2,690 |
| Other comprehensive income for the half-year, net of tax | - | 41 | - | 41 |
| Total comprehensive income for the half-year | - | 41 | 2,690 | 2,731 |
| <i>Transactions with owners in their capacity as owners:</i> | | | | |
| Dividends paid (note 11) | - | - | (1,961) | (1,961) |
| Balance at 31 December 2021 | <u>12,890</u> | <u>970</u> | <u>66,690</u> | <u>80,550</u> |

| | Consolidated | |
|---|---------------------|--------------------|
| Note | 31 Dec 2021 | 31 Dec 2020 |
| | \$'000 | \$'000 |
| Cash flows from operating activities | | |
| Receipts from customers | 47,335 | 29,065 |
| Payments to suppliers and employees | (44,171) | (21,130) |
| | <u>3,164</u> | <u>7,935</u> |
| Interest received | 1 | 2 |
| Other revenue | (236) | 2,427 |
| Interest and other finance costs paid | (13) | (52) |
| Income taxes paid | (2,902) | (448) |
| | <u>14</u> | <u>9,864</u> |
| Net cash from operating activities | | |
| Cash flows from investing activities | | |
| Payments for property, plant and equipment | (647) | (943) |
| Payments for intangibles | (1,298) | (1,421) |
| Proceeds from disposal of property, plant and equipment | 12 | 35 |
| | <u>(1,933)</u> | <u>(2,329)</u> |
| Net cash used in investing activities | | |
| Cash flows from financing activities | | |
| Repayment of lease liabilities | (177) | (228) |
| Dividends paid | (1,961) | (594) |
| Repayment of borrowings | - | (1,500) |
| | <u>(2,138)</u> | <u>(2,322)</u> |
| Net cash used in financing activities | | |
| Net increase/(decrease) in cash and cash equivalents | (4,057) | 5,213 |
| Cash and cash equivalents at the beginning of the financial half-year | 10,559 | 6,153 |
| Effects of exchange rate changes on cash and cash equivalents | 21 | (307) |
| | <u>6,523</u> | <u>11,059</u> |
| Cash and cash equivalents at the end of the financial half-year | | |

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes

Note 1. General information

The financial statements cover SDI Limited as a consolidated entity comprising of SDI Limited ('Company' or 'parent entity') and its subsidiaries (collectively referred to as the 'consolidated entity'). The financial statements are presented in Australian dollars, which is SDI Limited's functional and presentation currency.

SDI Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business are:

Registered office

5 - 9 Brunsdon Street
Bayswater VIC 3153

Principal place of business

3 - 15 Brunsdon Street
Bayswater VIC 3153

A description of the nature of the consolidated entity's operations and its principal activities are included in the Directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of Directors, on 17 February 2022. The Directors have the power to amend and reissue the financial statements.

Note 2. Significant accounting policies

These general purpose financial statements for the interim half-year reporting period ended 31 December 2021 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the *Corporations Act 2001*, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2021 and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except as stated below.

New or amended Accounting Standards and Interpretations adopted

The consolidated entity has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are relevant to its operations and effective for the current reporting period.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Note 3. 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. Refer to note 4 for revenue from product lines.

Operating segments are determined using the 'management approach', where the information presented is on the same basis as 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 reportable operating segments which are primarily identified on the basis of subsidiary companies in different geographical markets.

Note 3. Operating segments (continued)

Reportable segments

The consolidated entity's reportable segments are as follows:

| | |
|------------|--|
| Australia: | SDI Limited and SDI Dentech Innovations Pty Ltd. |
| Europe: | SDI Germany GmbH (Germany) and SDI Dental Innovations Limited (United Kingdom). |
| USA: | SDI (North America), Inc. |
| Brazil: | SDI Brasil Industria e Comercio Ltda and SDI Holdings Pty Ltd (branch), commenced operations December 1, 2021. |

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.

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 sells products. No single customer represents 10% or more of the consolidated entity's revenue.

Operating segment information

| Consolidated - 31 Dec 2021 | Australia \$'000 | Europe \$'000 | USA \$'000 | Brazil \$'000 | Total \$'000 |
|---|-----------------------------|--------------------------|-----------------------|--------------------------|-------------------------|
| Revenue | | | | | |
| Sales to external customers | 17,477 | 15,097 | 10,254 | 3,500 | 46,328 |
| Intersegment sales | 15,873 | 2,053 | - | 523 | 18,449 |
| Total sales revenue | 33,350 | 17,150 | 10,254 | 4,023 | 64,777 |
| Total segment revenue | 33,350 | 17,150 | 10,254 | 4,023 | 64,777 |
| Intersegment eliminations | | | | | (18,449) |
| Total revenue | | | | | 46,328 |
| Segment results before tax and adjustments below | 4,909 | 662 | 376 | 653 | 6,600 |
| Intersegment adjustments | (571) | - | - | - | (571) |
| Depreciation and amortisation | (2,172) | (139) | (88) | (34) | (2,433) |
| Interest revenue | - | - | - | 1 | 1 |
| Finance costs | - | - | - | - | - |
| Profit before income tax expense | 2,166 | 523 | 288 | 620 | 3,597 |
| Income tax expense | | | | | (907) |
| Profit after income tax expense | | | | | 2,690 |
| Assets | | | | | |
| Segment assets | 83,699 | 13,169 | 9,020 | 7,667 | 113,555 |
| Intersegment eliminations | | | | | (18,143) |
| Total assets | | | | | 95,412 |
| Liabilities | | | | | |
| Segment liabilities | 10,809 | 8,800 | 2,738 | 6,973 | 29,320 |
| Intersegment eliminations | | | | | (14,458) |
| Total liabilities | | | | | 14,862 |

Note 3. Operating segments (continued)

| Consolidated - 31 Dec 2020 | Australia \$'000 | Europe \$'000 | USA \$'000 | Brazil \$'000 | Total \$'000 |
|---|-----------------------------|--------------------------|-----------------------|--------------------------|-------------------------|
| Revenue | | | | | |
| Sales to external customers | 13,458 | 12,032 | 9,179 | 2,093 | 36,762 |
| Intersegment sales | 7,738 | 1,286 | - | - | 9,024 |
| Total sales revenue | 21,196 | 13,318 | 9,179 | 2,093 | 45,786 |
| Total segment revenue | 21,196 | 13,318 | 9,179 | 2,093 | 45,786 |
| Intersegment eliminations | | | | | (9,024) |
| Total revenue | | | | | 36,762 |
| Segment results before tax and adjustments below | | | | | |
| Intersegment adjustments | 6,552 | 499 | 379 | 58 | 7,488 |
| Depreciation and amortisation | 1,185 | - | - | - | 1,185 |
| Interest revenue | (1,977) | (190) | (76) | (70) | (2,313) |
| Finance costs | 2 | - | - | - | 2 |
| Profit/(loss) before income tax expense | (42) | (8) | (1) | (1) | (52) |
| Income tax expense | 5,720 | 301 | 302 | (13) | 6,310 |
| Profit after income tax expense | | | | | (1,732) |
| | | | | | 4,578 |
| Consolidated - 30 June 2021 | | | | | |
| Assets | | | | | |
| Segment assets | 87,042 | 13,443 | 9,565 | 6,406 | 116,456 |
| Intersegment eliminations | | | | | (18,052) |
| Total assets | | | | | 98,404 |
| Liabilities | | | | | |
| Segment liabilities | 14,318 | 9,406 | 3,683 | 6,431 | 33,838 |
| Intersegment eliminations | | | | | (15,214) |
| Total liabilities | | | | | 18,624 |

Note 4. Sales revenue

| | Consolidated 31 Dec 2021 \$'000 | 31 Dec 2020 \$'000 |
|--------------------------------------|--|-------------------------------|
| Sales revenue | 46,328 | 36,762 |
| Major product lines | | |
| Aesthetics | 21,274 | 16,325 |
| Amalgam | 7,196 | 5,224 |
| Equipment | 3,256 | 2,819 |
| Whitening | 14,602 | 12,394 |
| | 46,328 | 36,762 |
| Timing of revenue recognition | | |
| Goods transferred at a point in time | 46,328 | 36,762 |

Note 4. Sales revenue (continued)

Refer to note 3 for disaggregation of revenue from contracts with customers based on geographical regions.

Note 5. Other losses, net

| | Consolidated 31 Dec 2021 \$'000 | 31 Dec 2020 \$'000 |
|---|---------------------------------------|-----------------------|
| Net foreign exchange loss | (236) | (1,028) |
| Net gain on disposal of property, plant and equipment | 12 | 24 |
| Other losses, net | <u>(224)</u> | <u>(1,004)</u> |

Note 6. Expenses

| | Consolidated 31 Dec 2021 \$'000 | 31 Dec 2020 \$'000 |
|--|---------------------------------------|-----------------------|
| Profit before income tax includes the following specific expenses: | | |
| <i>Depreciation</i> | | |
| Land and buildings | 43 | 54 |
| Plant and equipment | 1,256 | 929 |
| Land and buildings right-of-use assets | 170 | 230 |
| Total depreciation | <u>1,469</u> | <u>1,213</u> |
| <i>Amortisation</i> | | |
| Product development costs | 661 | 718 |
| Intellectual property | 303 | 383 |
| Total amortisation | <u>964</u> | <u>1,101</u> |
| Total depreciation and amortisation | <u>2,433</u> | <u>2,314</u> |
| <i>Finance costs</i> | | |
| Interest and finance charges paid/payable on borrowings | - | 42 |
| Interest and finance charges paid/payable on lease liabilities | 13 | 10 |
| Finance costs expensed | <u>13</u> | <u>52</u> |

Note 7. Earnings per share

| | Consolidated | |
|---|-----------------------|-----------------------|
| | 31 Dec 2021 \$'000 | 31 Dec 2020 \$'000 |
| Profit after income tax attributable to the owners of SDI Limited | 2,690 | 4,578 |
| | 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 | 2.26 | 3.85 |
| Diluted earnings per share | 2.26 | 3.85 |

Note 8. Trade and other receivables

| | Consolidated | |
|--|-----------------------|------------------------|
| | 31 Dec 2021 \$'000 | 30 June 2021 \$'000 |
| <i>Current assets</i> | | |
| Trade receivables | 16,527 | 17,422 |
| Less: Allowance for expected credit losses | (88) | (91) |
| | 16,439 | 17,331 |
| Other receivables | 608 | 1,155 |
| | 17,047 | 18,486 |
| <i>Non-current assets</i> | | |
| Other receivables | 756 | 805 |
| | 17,803 | 19,291 |

Allowance for expected credit losses

The consolidated entity has recognised \$5,000 profit (31 December 2020: \$23,000 loss) in profit or loss in respect of the expected credit losses for the half-year ended 31 December 2021.

Other receivables relate to prepaid taxes.

Note 9. Issued capital

| | Consolidated | | | |
|------------------------------|-----------------------|------------------------|-----------------------|------------------------|
| | 31 Dec 2021 Shares | 30 June 2021 Shares | 31 Dec 2021 \$'000 | 30 June 2021 \$'000 |
| Ordinary shares - fully paid | 118,865,530 | 118,865,530 | 12,890 | 12,890 |

Ordinary shares

Ordinary shares entitle the holder to participate in any dividends and any proceeds attributable to shareholders should the Company be wound up, in proportions that consider both the number of shares held and the extent to which those shares are paid up. The fully paid ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

Note 9. Issued capital (continued)

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll, each share shall have one vote.

Share buy-back

There is no current on-market share buy-back.

Note 10. Retained profits

| | Consolidated | |
|--|---------------------|---------------------|
| | 31 Dec 2021 | 30 June 2021 |
| | \$'000 | \$'000 |
| Retained profits at the beginning of the financial half-year | 65,961 | 59,397 |
| Profit after income tax expense for the half-year | 2,690 | 8,941 |
| Dividends paid (note 11) | (1,961) | (2,377) |
| | <u>66,690</u> | <u>65,961</u> |
| Retained profits at the end of the financial half-year | | |

Note 11. Dividends

Dividends paid during the financial half-year were as follows:

| | Consolidated | |
|---|---------------------|--------------------|
| | 31 Dec 2021 | 31 Dec 2020 |
| | \$'000 | \$'000 |
| Final dividend for the year ended 30 June 2021 of 1.65 cents (2020: 0.5 cents) per ordinary share | <u>1,961</u> | <u>594</u> |

On 17 February 2022, the Directors declared an interim franked dividend of 1.50 cents per share to be paid on 22 April 2022. This equates to a total estimated distribution of \$1,783,000 based on the number of ordinary shares on issue as at 31 December 2021. The financial effect of dividends declared after the reporting date is not reflected in the 31 December 2021 financial statements and will be recognised in subsequent financial reports.

Note 12. Contingent liabilities

The consolidated entity had no contingent liabilities as at 31 December 2021 and 30 June 2021.

Note 13. Events after the reporting period

Apart from the dividend declared as disclosed in note 11, no other matter or circumstance has arisen since 31 December 2021 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

In the Directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 31 December 2021 and of its performance for the financial half-year ended on that date; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of Directors made pursuant to section 303(5)(a) of the Corporations Act 2001.

On behalf of the Directors



Samantha Jane Cheetham
Managing Director

17 February 2022
Melbourne

Independent Auditor's Review Report to the members of SDI Limited

Conclusion

We have reviewed the accompanying half-year financial report of SDI Limited (the "Entity") and its subsidiaries (the "Group"), which comprises the condensed consolidated statement of financial position as at 31 December 2021, the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of cash flows and the condensed consolidated statement of changes in equity for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the Director's Declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position as at 31 December 2021 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Half-year Financial Report* section of our report. We are independent of the Group in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Entity, would be in the same terms if given to the directors as at the time of this auditor's review report.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2021 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU



Anneke du Toit
Partner
Chartered Accountants
Melbourne, 17 February 2022